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IN THE

Supreme Court of the United States

OCTOBER TERM, 1980

PETER M. ROBERTS,

Petitioner,

vs.

SEARS, ROEBUCK AND CO., a corporation,

Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT

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QUESTIONS PRESENTED

1. Can a plaintiff be deprived of his VIIth Amendment right to jury trial because he joined his claims for legal and equitable relief?

2. Under the Federal Rules of Civil Procedure can a defrauded plaintiff be compelled to forfeit either his right to a trial by jury or his right to rescind?

3. Can the fundamental rights of a plaintiff to relief be restricted by a rule of "election of remedies" that has no basis either in federal or state law?

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PETER M. ROBERTS,

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PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT

Petitioner, Peter M. Roberts, respectfully prays that a writ of certiorari be issued to review the decisions of the United States Court of Appeals for the Seventh Circuit in this case.

OPINIONS BELOW

The first opinion of the Court of Appeals in this case, reported in 573 F.2d 976 (1978), is printed in the appendix to this petition (App. 1a-17a). The opinion of the

United States District Court for the Northern District of Illinois on remand, reported in 471 F. Supp. 372 (1979), is printed at App. 18a-35a. The second opinion of the Court of Appeals, reported in 617 F.2d 460 (1980), is printed at App. 36a-48a.

JURISDICTION

The Court of Appeals entered its second judgment on March 12, 1980. A timely petition for rehearing, with suggestion for hearing en banc, was denied on June 17, 1980. (App. 49a) This Court has jurisdiction under 28 U.S.C. § 1254(1).

CONSTITUTIONAL PROVISION INVOLVED

United States Constitution, Amendment VII (1791)

In Suits at common law, where the value in controversy shall exceed twenty dollars, the right of trial by jury shall be preserved, and no fact tried by a jury, shall be otherwise re-examined in any Court of the United States, than according to the rules of the common law.

STATEMENT OF THE CASE

"This case involves the efforts of one of the nation's largest retail companies, Sears, Roebuck & Co. (Sears), to acquire through deceit the monetary benefits of an invention of a new type of socket wrench created by one of its sales clerks during his off-duty hours." (App. 1a-2a) In 1963 the petitioner, Peter M. Roberts, then 18 years old, was employed as a sales clerk in a Sears retail store in Gardner, Massachusetts. He invented and produced a prototype of a "quick release" ratchet wrench, a long needed tool of great importance to mechanics. This invention enabled a mechanic using it to change the size of the socket with one hand, and for the first time made the socket wrench fully usable as a one handed tool. He applied for a patent on his invention. In 1964, at the suggestion of the manager of the Sears store where he worked, he submitted his prototype to Sears in confidence. (App. 2a)

The sordid story of the dealings between Sears and the petitioner, including Sears' misrepresentations and concealment, the resulting agreement for the assignment of worldwide patent rights to Sears, with a royalty of 2¢ per unit up to a maximum of $10,000, is detailed in the first opinion of the court of appeals, (App. 2a-5a), and again in the district court's opinion on remand. (App. 18a-24a) Before signing the contract, Sears planned to sell several hundred thousand of the wrenches with an increased cost to Sears of only 20¢ per unit. "Within days after the signing of the contract, Sears was manufacturing 44,000 of plaintiff's wrenches per week —all with plaintiff's patent number prominently stamped on them—and within three months, Sears was

marketing them as a tremendous breakthrough. . . . Between 1965 and 1975, Sears sold in excess of 19 million wrenches, many at a premium of one to two dollars profit because no competition was able to market a comparable product for several years." (App. 4a-5a)

After the petitioner returned from military service abroad and had become a resident of Tennessee, he commenced this diversity action against the respondent, an Illinois corporation, in the United States District Court for the Northern District of Illinois in December of 1969, the requisite jurisdictional amount being involved. The complaint prayed for rescission of the agreement assigning the patent rights to the defendant, an injunction against further use by the defendant, imposition of a constructive trust upon the defendant, an accounting by the defendant and such further equitable relief as may be appropriate. In addition the complaint prayed that damages be awarded to plaintiff. (App. 36a) The prayer for an injunction was subsequently withdrawn. The petitioner demanded a jury trial. In addition to the proof of fraud, misrepresentations, confidential relationship and Sears' rapid commercial development of the device, the petitioner introduced evidence that the value of a reasonable royalty for the period up to the time of trial was $2,200,000 and the net incremental profits received by Sears from the use of the device during the same period amounted to $44,032,082. (App. 34a)

The case was submitted to the jury on three alternative counts: Count I charged that Sears was guilty of fraud; Count II that Sears had violated its confidential relationship with the petitioner; and Count III that Sears had negligently misrepresented the facts to the petitioner. The jury returned a verdict in favor of the petitioner on each count and on each count awarded the petitioner $1,000,000. These amounts were not cum-

ulative. The respondent filed an alternative motion for judgment N.O.V. or for a new trial, which the court denied. The petitioner's post trial motion sought rescission, and the entry of judgment in the amount of $44,000,000, the amount of incremental profits that the evidence showed the respondent had obtained by its fraud, or in the alternative the entry of an order directing that the amount of the respondent's profits be determined by a special master. The district judge denied the petitioner's motion on the ground that when the petitioner "permitted the case to go to the jury he had selected his legal remedy and could not later also seek his equitable relief." (App. 6a)

The petitioner appealed to the court of appeals and the respondent cross-appealed. The court of appeals stated: "[W]e affirm the district court's judgment against Sears on all three counts in plaintiff's complaint and the court's decision not to alter plaintiff's monetary award, but reverse the court's determination that it lacked the power to award rescission and remand to the district court for a determination of whether rescission is appropriate under the facts of this case." (App. 17a)

The respondent then filed a petition for certiorari to review the judgment of the court of appeals, insofar as it affirmed the judgment of the district court, and the petitioner filed a conditional petition for certiorari, seeking to review the judgment of the court of appeals only in the event that the respondent's petition was allowed. Both petitions were denied. 439 U.S. 860 (1979).

On remand the parties agreed that no further evidence was to be heard, and the trial court considered whether, on the pleadings and the evidence presented to the jury, the petitioner was entitled to rescission. (App. 19a) The court found that the verdict of the jury had

awarded the petitioner only damages for the injury inflicted on him by Sears, and had not included Sears' unjust enrichment. (App. 32a) The court therefore concluded that the petitioner was entitled to rescission of the contract, return of the patents to the petitioner, and an accounting by Sears to determine the amount of money by which it has been unjustly enriched through its use of petitioner's invention. (App. 33a-34a)

The respondent appealed. In its second opinion a majority of the court of appeals stated: "In our prior opinion, we repeatedly referred to the 'return of plaintiff's patent' and when we used the word 'rescission,' we used it in the context of returning the plaintiff's patent. We did not say that the plaintiff could under any theory upon remand be entitled to restitution or additional damages or profits. In fact, we expressly said that the plaintiff *did* elect his remedy as to *past* damages or profits up to the time of the jury verdict and that return of his patent might be the most effective way of insuring that the plaintiff receive the *future* benefits of the patent. We remanded the case for the purpose of determining whether as an equitable matter the plaintiff should recover his patent. In retrospect, we would have been better advised to use some other word such as cancellation, termination or forfeiture of the June 15, 1965 agreement, or reconveyance or reassignment of plaintiff's patent, but at the time, 'rescission' seemed to be an appropriate word to cover the process of cancelling the agreement and returning the patent." (App. 41a-42a)

The majority further held that the law does not permit the remedy the district court awarded upon remand, saying: "In the earlier opinion, we accepted Illinois law as to election of remedies for past damages or profits, as had the District Court immediately after the jury ver-

dict. We parted with Illinois law only to give the plaintiff an opportunity to protect himself against future damages." (App. 42a) The majority opinion said that the petitioner had "prosecuted to judgment his claim for money damages at common law" and received $1,000,000 for Sears' fraud and misrepresentation, "representing damages up to the entry of judgment." This, it was said, "constitutes an election under Illinois law." Accordingly, the majority denied petitioner's claim for what the opinion termed "his demands for further damages covering the same period of time for 'disgorgement of defendant's unjust enrichment'." The majority held that restitution of this kind was "an equitable remedy with no right to a trial by jury," and concluded that "[b]y submitting his damage claim to the jury, the plaintiff elected that remedy." (App. 43a)

The majority vacated the district court's decree and memorandum opinion and remanded with directions to enter a final judgment when Sears delivered patent assignments to petitioner. "In order to avoid if possible any future misunderstanding, the effect of the assignments will be that the defendant owned all of the patent rights from June 15, 1965 to January 20, 1977, and the plaintiff shall be considered the owner from January 20, 1977 on. The plaintiff will not be entitled to sue for any infringement occurring prior to January 20, 1977." (App. 44a) The majority also stated that if the plaintiff sued Sears for infringement after January 20, 1977, Sears could attack the validity of the patent. (App. 45a)

In his dissent, (App. 45a-48a), Judge Swygert stated that the prior holding of that court which characterized the jury's award as the "measure of *past* profits earned by Sears up to the time of trial," prohibited any

recovery of profits prior to the date of the original judgment. (App. 45a) He also stated: "Because we have held that the contract was void after January 1, 1977, profits earned by the defendant after that date must be disgorged to prevent unjust enrichment. Because the jury was never asked to award damages for this period, there is no possible double recovery or factual inconsistency in this result." (App. 47a) Judge Swygert characterized Sears' conduct as "monumental fraud," and concluded that the majority's return of the patent to petitioner with the opportunity to sue Sears for infringement, subject to a defense of invalidity, "not only condones the proven unethical conduct of Sears but is manifestly unjust to the plaintiff." (App. 48a)

REASONS FOR GRANTING THE WRIT

The judgment below frames an erroneous rule of widespread effect eliminating relief traditionally afforded to a plaintiff fraudulently induced by the defendant to enter into a contract. The court of appeals has, in two successive (and incompatible) opinions, framed a rule which places an unconstitutional burden on the exercise of a plaintiff's right to a jury trial. The rule of these decisions, as stated in the court of appeals' second opinion, is in conflict with rulings of this Court and those of other courts of appeals. That rule announces a rigid doctrine of election of remedies not conforming to either state or federal law.

That Sears induced the plaintiff to assign his invention to it by means of fraud has been determined as a matter of fact. The questions now presented concern the remedy that a defrauded plaintiff can obtain in a diversity action. The primary remedy sought by the petitioner is a familiar one:

> "If the defendant has received and made profitable use of the plaintiff's ideas and devices, the plaintiff can get judgment for the amount of the net profits of such use." (5 A. Corbin, Contracts § 1112, p. 599 (1964))

The court of appeals has held, for erroneous reasons, that petitioner is barred from that traditional remedy. That court has arrived at a rule that victims of deliberate fraud must either surrender their Seventh Amendment right to a jury trial or forfeit their right to recover the wrongdoer's unjust enrichment.

In its first opinion, (573 F.2d 976-86; App. 1a-17a), the court of appeals concluded "that going to the jury

under a past profits instruction did not bar plaintiff from seeking rescission and thereby possibly recovering his patent." (App. 16a-17a) Its conclusion was right but its factual predicate was wrong. This case had *not* been submitted "to the jury under a past profits instruction." As is shown in detail (*infra* pp. 14-16), the instruction in question was definitely not a past profits instruction.

In its second opinion, (617 F.2d 460-67; App. 36a-48a), the court of appeals totally abandoned the basis of its first opinion. It now describes the jury's award "for defendant's fraud and misrepresentation" as representing not past profits but "damages up to the entry of judgment." (App. 42a, 43a) The court repeatedly refers to the plaintiff's election between "past damages or profits," (App. 42a), and it now purports to apply the Illinois law of election of remedies and holds: "By submitting his damage claim to the jury, the plaintiff elected that remedy." (App. 43a)

To understand how the court of appeals reached these untoward results, it is necessary to review the progress of the case through the district court, the first opinion of the court of appeals, the opinion of the district court on remand, and the majority and dissenting opinions in the court of appeals on the second appeal.

THE PROCEEDINGS AT THE TRIAL

The petitioner alleged that Sears had acquired his invention by fraud. Sears sharply disputed its liability and asserted that Roberts had ratified the agreement. A factual determination of the moral quality of Sears' conduct—negligent or fraudulent—was basic to the right of the petitioner to any relief, whether legal or equitable. The affirmative defense of ratification also

raised factual issues. Because he could not predict how the facts would be determined, petitioner alleged his claim in multiple counts, and ultimately went to trial on the three that have been mentioned: fraud, breach of confidential relation, and negligent misrepresentation.

The petitioner demanded a jury trial, as he was clearly entitled to do under *Beacon Theatres, Inc. v. Westover*, 359 U.S. 500 (1959), because of the common questions of fact underlying his right to any relief in this case, whether in tort, in quasi-contract, or in equity, and also because under Illinois law only damages, not profits, can be recovered for *negligent* misrepresentation. *Wilkinson v. Appleton*, 28 Ill. 2d 184, 190 N.E.2d 727 (1963); *McAfee v. Rockford Coca-Cola Bottling Co.*, 40 Ill. App. 3d 521, 526-27, 352 N.E.2d 50, 53-55 (1976). The petitioner prayed for rescission, the return of his patent, an accounting for Sears' profits during the period that Sears had been exploiting it, and damages. Under this Court's Federal Rules of Civil Procedure the petitioner had the right to join his legal and equitable claims in a single complaint, (F.R.C.P. Rule 18), and except in cases of default "every final judgment shall grant the relief to which the party in whose favor it is rendered is entitled . . . ." F.R.C.P. Rule 54(c).

During the instruction conference the district court ruled that by asking for a jury trial, the petitioner had elected to recover damages and had thereby waived his rights to rescission, to an accounting, and to the return of Sears' profits. (App. 51a) For that reason the court refused an instruction tendered by the petitioner which told the jury that if they found for the petitioner on Counts I and II they must award him the profits Sears had realized from the exploitation of plaintiff's invention. (App. 54a) The judge then dictated the instruction which

did not mention the petitioner's right to recover Sears' profits if they found that it had been guilty of fraud or had violated a confidential relationship. Instead, the judge's instruction told the jury that under Counts I and II they "may" take profits into account in determining the plaintiff's damages. (App. 61a) The instruction on Count III advised the jury that in determining the plaintiff's damages they could take into account a reasonable royalty. The jury returned noncumulative verdicts for petitioner in the identical amount on all three counts. The district court denied the petitioner's post trial motion, which requested the judge to conduct an accounting to determine the amount of Sears' profits. Judgment was entered on all three verdicts.

THE REMAND FOR RESCISSION

In its first opinion the court of appeals affirmed the judgment of the trial court as to the monetary award. It went on to state erroneously that "[b]ased on the jury instruction, plaintiff will receive one million dollars as the measure of *past* profits earned by Sears up to the time of trial." (App. 16a) The court of appeals also held that it was not bound by the Illinois law of election of remedies. It remanded to the district court for an initial "determination of whether rescission is appropriate under the facts of this case." (App. 17a)

On remand the district court reviewed the evidence and the authorities in Illinois and elsewhere concerning the availability of rescission as a remedy for fraud or the breach of a confidential relationship and concluded that the court of appeals had not held that rescission means one thing for this petitioner and another for other litigants. The court decided that there was no reason to depart from the Illinois remedy of rescission for fraud

and breach of confidential relationship, and therefore entered a decree of rescission. The court rejected the petitioner's contention that he had presented evidence to the jury which was adequate to sustain an award of the net incremental profits Sears had earned from his invention, less the $1,000,000 jury award. The judge decided that there should be an accounting and stated: "Whether by the accounting it will be determined that the amount he is entitled to receive from Sears is $44,032,082, reduced by the $1,000,000 jury verdict is a matter to be seen." (App. 34a-35a)

THE SECOND APPEAL

On the second appeal, the court of appeals abandoned its former position that the jury's award had represented Sears' past profits. It now adopted the position taken by the district court during the trial, and held: "Restitution for the disgorgement of unjust enrichment is an equitable remedy with no right to a trial by jury. . . . By submitting his damage claim to the jury, the plaintiff elected that [the damage] remedy." (App. 43a) In its opinion of March 12, 1980, the court also stated that the effect of the defendant's reassignment of the patents to the plaintiff would be that Sears "owned all of the patent rights from June 15, 1965 to January 20, 1977, and the plaintiff shall be considered the owner from January 20, 1977 on." (App. 44a) The court also said that the defendant, if sued for an infringement that took place after January 20, 1977, could attack the validity of the patent. The judgment of the district court was vacated and the case was remanded for further proceedings consistent with the opinion of the court of appeals.

THE JURY DID NOT AWARD "PAST PROFITS"

As the court of appeals has now tacitly recognized, its former description of the instruction as calling for an award of past profits was completely erroneous. That instruction was given by the district judge after he had specifically refused a "past profits" instruction tendered by the petitioner on the ground that petitioner had waived his right to rescind and recover Sears' profits by submitting his case to the jury. (App. 51a, 53a-54a) The instruction that was given is definitely *not* a past profits instruction. Its key provision appears to have been derived from a form of instruction used in patent infringement cases after the Patent Code (35 U.S.C. 284) was amended in 1946 to prohibit recovery of the defendant's profits in an infringement case. *See*, W. Mathes and E. Devitt, *Federal Jury Practice and Instructions* § 86.37, pp. 575-76 (1965).

In *Aro Manufacturing Co., Inc. v. Convertible Top Replacement Co., Inc.*, 377 U.S. 476 (1964), the effect of the 1946 amendment was described. "By the 1946 amendment, . . . the statute was changed to approximately its present form, whereby only 'damages' are recoverable. The purpose of the change was precisely to eliminate the recovery of profits as such and allow recovery of damages only." 377 U.S. at 505. (The damages awarded in a patent case involving deliberate infringement may be trebled by the judge. 35 U.S.C. 284) The effect of the amendment was also described in *Zegers v. Zegers, Inc.*, 458 F.2d 726, 728 (7th Cir. 1972).

Although the instruction that was given to the jury in this case, and approved by the court of appeals, was derived from infringement cases in which recovery of profits is forbidden, it is already being cited as a precedent for use in non-infringement actions for fraud and

deceit where profits *are* recoverable. *See, e.g.*, 3 E. Devitt and C. Blackmar, *Federal Jury Practice and Instructions* § 83.01 (3d ed. 1977 at Supp. 1979, p. 39):

> "§ 83.01 *Action for Fraud and Deceit—Plaintiff's Claim*
>
> NOTES
>
> For jury submission as to confidential relationship imposing fiduciary responsibilities, in patent assignment case, see Roberts v. Sears Roebuck & Co., 573 F.2d 976 (7th Cir. 1978), cert. denied 439 U.S. 860, 99 S.Ct. 179, 58 L.Ed.2d 168."

Apart from its origin and use in an area of the law in which recovery of past profits is forbidden, the meaning of the instruction is clear on its face. The trial judge knew that the instruction he gave was not designed to call for a determination of Sears' past profits. That's why he gave it. Sears, too, knew that the instruction did not call for a determination of its own past profits. Sears said so, both in writing and orally in response to the petitioner's post trial request that the court itself grant restitution of Sears' unjust enrichment since the jury had not been allowed to determine Sears' profits:

> "These instruction and [verdict] forms required any jury award to be for money damages exclusively." (Defendant's Memorandum In Opposition To Plaintiff's Motion For Rescission, etc., March 11, 1977, at 1, bracketed material added)
>
> * * * * *
>
> "The instructions . . . asked this jury to return an award of money damages and money damages is an entirely different concept than an accounting for profits." (Tr. of March 16, 1977)

The jurors also understood that they were called upon to determine only the amount of the damages suffered by the plaintiff—which could be measured by the value of a

reasonable royalty—rather than the harvest reaped by the fraudulent defendant. They were told that they *may*—which means that they *need not*—take into account the defendant's past profits in awarding the plaintiff's damages. It is upon this basis that the jury awarded the same amount as damage to the plaintiff caused by the defendant's negligence as they did for the defendant's deliberate fraud and breach of a confidential relationship.

I.

THE SECOND DECISION OF THE COURT OF APPEALS ON REVIEW IS IN CONFLICT WITH DECISIONS OF THIS COURT AS WELL AS DECISIONS OF OTHER UNITED STATES COURTS OF APPEALS.

The court of appeals held:

> "Restitution for the disgorgement of unjust enrichment is an equitable remedy with no right to a trial by jury. [Citations] By submitting his damage claim to the jury, the plaintiff elected that remedy." (App. 43a)

Those two sentences are the core of the second opinion of the court of appeals in this case. They are in conflict with the principles laid down in the following decisions of this court: *Ross v. Bernhard*, 396 U.S. 531 (1970); *Simler v. Conner*, 372 U.S. 221 (1963); *Dairy Queen, Inc. v. Wood*, 369 U.S. 469 (1962); *Beacon Theatres, Inc. v. Westover*, 359 U.S. 500 (1959).

In *Ross v. Bernhard*, after referring to *Beacon Theatres* and *Dairy Queen*, this Court said: "[W]here equitable and legal claims are joined in the same action, there is a right to jury trial on the legal claims which must not be infringed either by trying the legal issues as

incidental to the equitable ones or by a court trial of a common issue existing between the claims. The Seventh Amendment question depends upon the nature of the issue to be tried rather than the character of the overall action." 396 U.S. at 537-38.

In *Simler v. Conner*, 372 U.S. 221 (1963), this Court held that a claim for cancellation of a contract on the ground that it was procured by fraud and overreaching did not justify denial of a plaintiff's demand for a jury trial in a diversity case, even though there would surely have been no right to a jury trial if the diversity action had been brought in the state court. The Court relied upon the *Beacon Theatres-Dairy Queen* line of cases for this statement of the principle which must govern this case and those like it:

> "In diversity cases, of course, the substantive dimension of the claim asserted finds its source in state law, [citations], but the characterization of that state-created claim as legal or equitable for purposes of whether a right to trial by jury is indicated must be made by recourse to federal law." 372 U.S. at 222.

As applied to fraud cases, the "substantive dimension" of a victim's claim is the recognized right under the law of all States to require the wrongdoer to disgorge his unjust enrichment. Whether that claim is characterized as equitable under the law of Illinois or any other State is immaterial in determining the right to a trial by jury in a federal diversity action. Federal law determines the right to a trial by jury. In the present federal diversity action, however, the court of appeals has squarely held that by asserting his federal constitutional right to a trial by jury, the petitioner forfeited his right to rescind the fraudulent transaction and to recover the profits that Sears had obtained by its fraud.

In *Dairy Queen, Inc. v. Wood* this Court stated: "The respondents' contention that this money claim [for trademark infringement] is 'purely equitable' is based primarily upon the fact that their complaint is cast in terms of an 'accounting,' rather than in terms of an action for 'debt' or 'damages.' But the constitutional right to trial by jury cannot be made to depend upon the choice of words used in the pleadings." 369 U.S. at 477-78. "The legal remedy cannot be characterized as inadequate merely because the measure of damages may necessitate a look into the petitioner's business records." 369 U.S. at 479. As Mr. Justice Harlan put it in his concurring opinion: "The fact that 'an accounting' is sought is not of itself dispositive of the jury trial issue. To render this aspect of the complaint 'truly equitable' it must appear that the substantive claim is one cognizable only in equity or that the 'accounts between the parties' are of such a 'complicated nature' that they can be satisfactorily unraveled only by a court of equity. . . . A jury, under proper instructions from the court, could readily calculate the damages flowing from this alleged trademark infringement, just as courts of law often do in copyright and patent cases." 369 U.S. at 480-81.

The *Beacon Theatres-Dairy Queen* line of decisions was cited to the court of appeals on both appeals in this case. Those decisions are not mentioned in either of the opinions of that court.

The decisions of the court of appeals are also in conflict with the following decisions of courts of appeals: *Kennedy v. Lakso Company, Inc.*, 414 F.2d 1249 (3rd Cir. 1969); *Bruce v. Bohanon*, 436 F.2d 733 (10th Cir. 1971); *Nunez v. The Superior Oil Co.*, 572 F.2d 1119 (5th Cir. 1978).

In *Kennedy v. Lakso Company, Inc.*, the Third Circuit said:

> "While it is true that equity traditionally has had jurisdiction in actions for an accounting, it has always been recognized that there may be a suit for accounting at law and indeed the essential ingredient of equity's jurisdiction has been the complicated nature of the accounting." 414 F.2d at 1253.

Bruce v. Bohanon, 436 F.2d 733 (10th Cir. 1971), was a mandamus action to compel the district judge to vacate an order which denied a trial by jury on the ground that the complaint contained only equitable issues. The complaint alleged that the plaintiffs had confidentially disclosed certain business information to the defendants. Thereafter, it was alleged, the defendants wrongfully appropriated the confidential information to their own benefit. The plaintiffs sought a determination that they had an equitable right to participate with the defendants in the development of the project which was the product of the confidential information, and they also sought an accounting in connection with that equitable claim. The court pointed out that the fact that an accounting was sought does not of itself bar the right to a jury trial. "Rather," the court said, "we must look beyond the relief sought and determine the true nature of the underlying claim upon which the prayer for relief is itself predicated." 436 F.2d at 736. So viewed, the court held that the core issue in the case was whether or not there had been a wrongful appropriation—a legal issue which required a trial by jury. The plaintiff was *not* barred from the full relief he sought.

In the present case, although the core issue was the same—had there been a wrongful appropriation—the petitioner's right to full relief was barred.

Nunez v. The Superior Oil Co., 572 F.2d 1119 (5th Cir. 1978), involved an action to cancel oil leases for breach of their terms. In addition to cancellation the plaintiff sought damages he sustained as a result of the breach. Those damages included the value of the entire production attributed to his interest in the oil lease from the date of the breach. The defense was the existence of extenuating circumstances. The court held that the question of the existence of extenuating circumstances depended largely upon whether the defendant had acted reasonably under the circumstances. Characterization of the defendant's conduct was an issue common to both the legal and equitable claims and therefore a jury trial was required. The plaintiff's equitable right was not forfeited by the jury trial of the common issue of fact.

In the present case the characterization of the defendant's conduct—negligent or fraudulent—was an issue common to both the legal and equitable claims, as were some of Sears' affirmative defenses, but the petitioner's equitable right was held to have been forfeited by the jury trial of the common issues of fact.

II.

THE JUDGMENTS OF THE COURT OF APPEALS UNCONSTITUTIONALLY REQUIRE A DEFRAUDED PLAINTIFF TO GIVE UP HIS RIGHT TO A JURY TRIAL IN ORDER TO RECOVER THE WRONGDOER'S UNJUST ENRICHMENT.

Since *Beacon Theatres, Inc. v. Westover*, 359 U.S. 500 (1959), the right to a trial by jury has been determined by the nature of the issues to be tried. If an issue of fact is of a kind that was triable to a jury prior to the adoption of the Seventh Amendment, it remains so triable in the federal courts.

From the outset of this case in 1969 the petitioner has sought both legal and equitable relief and demanded a trial by jury. He was entitled to do so under Rules 8, 18, 38 and 39 of the Federal Rules of Civil Procedure. The petitioner's claims for rescission of the contract, an accounting for Sears' profits, the return of his patent and damages remained constant throughout the case. A plaintiff has a right to a jury trial in a quasi-contract action to recover the proceeds of unjust enrichment. "[I]t has always been recognized that there may be a suit for accounting at law. . . ." *Kennedy v. Lakso Company, Inc.*, 414 F.2d at 1253. In addition the defendant asserted ratification of the agreement as an affirmative defense. Whether the defendant's conduct was deliberately fraudulent or merely negligent, and whether the plaintiff had ratified the transaction are issues that were triable by jury at common law.

Most of the authorities which we have cited have involved cases in which trial by jury had been totally denied. That difference, however, is not significant. The cases would be identical if, for example, the plaintiff in *Dairy Queen, Inc. v. Wood* had been compelled to abandon his claim for accounting because he had demanded a jury trial. In *Simler v. Conner* the plaintiff was not required to give up his right to cancel the contingent fee contract that had been obtained by fraud because he demanded a trial by jury. So too, in *Kennedy v. Lakso Company, Inc.*, the plaintiff was not required to give up his claim for recovery of the infringer's profits in order to obtain a jury trial upon the issue of damages.

Just as the right to a trial by jury is not lost because legal and equitable relief is sought in the same complaint, so the right to equitable relief cannot con-

stitutionally be denied, we submit, solely on the ground that a jury trial of common issues of fact has been demanded.

III.

THE COURT OF APPEALS HAS NOT FOLLOWED THE LAW OF ILLINOIS OR FEDERAL LAW ON ELECTION OF REMEDIES.

In this diversity action the court of appeals has announced and applied a harsh and antiquated doctrine of election of remedies that is not the law of Illinois or of the federal courts. In doing so it has established precedents that frustrate the continuing efforts of courts and legislative bodies to take the profit out of fraud.

Different errors were made by the court of appeals in denying an accounting for Sears' unjust enrichment profit *before* and *after* Sears' fraud was adjudicated. In its first opinion an accounting for Sears' profits was barred on the ground that those profits were included in the petitioner's judgment, and in its second opinion the court denied an accounting for profits for the period after the judgment by limiting petitioner to the inadequate remedy of a patent infringement action in which only damages—not profits—are recoverable. The first ruling permitted the wrongdoer to retain the profit it reaped from its fraud during the first two-thirds of the life of the patent, and the second ruling covered the remaining period.

In this case the difference between petitioner's damages and Sears' profits is potentially great, but the moral injustice of the precedents the court has established is the same whether the financial difference is great or small.

The difference between a plaintiff's damages and a defendant's profits is well understood. Describing that difference, common in patent litigation, as "the important distinction between 'damages' and 'profits'," this Court quoted an older definition that profits are "what the infringer makes" and damages are "what the owner of the patent loses." *Aro Manufacturing Co., Inc. v. Convertible Top Replacement Co., Inc.*, 377 U.S. 476, 505 (1964). In other words: "Damages are awarded to compensate the injured party for harm caused by the tort, whereas restitution is aimed at depriving the fraudulent party of benefits obtained by the tort." 1 G. Palmer, *Restitution* § 3.1, p. 230 (1978). Here the court of appeals permits Sears to keep the enormous profits it received for the erroneous reason that petitioner's remedy for those benefits was barred by his recovery of a different thing, his damages.

All this was done in the name of the doctrine of election of remedies. Long before the Federal Rules of Civil Procedure were adopted in 1938, this Court had expressed its dissatisfaction with that doctrine. In *Friederichsen v. Renard*, 247 U.S. 207, 211-13 (1918), this Court said that the doctrine of election of remedies "has never been a favorite of equity" and that to hold the plaintiff "made a fatal choice of an inconsistent remedy, would be to subordinate substance to form of procedure. . . ." In contrast to the Seventh Circuit's attitude in 1980, this Court said in 1918: "At best this doctrine of election of remedies is a harsh, and now largely obsolete, rule, the scope of which should not be extended. . . ." *Id.*

It has been pointed out that under the Federal Rules of Civil Procedure, "[r]ules that put plaintiffs to an election of remedies no longer are applicable since under

Rule 8(e)(2) parties are encouraged to set forth all possible claims for relief regardless of their nature or consistency." 4 C. Wright and A. Miller, *Federal Practice and Procedure* § 1044, p. 152 (1969). And with respect to the trial of cases in which multiple claims have been asserted, Rule 42(b) provides: "The court, in furtherance of convenience or to avoid prejudice, . . . may order a separate trial of any claim . . . or of any separate issue or of any number of claims, cross-claims, counterclaims, third-party claims, or issues, always preserving inviolate the right of trial by jury as declared by the Seventh Amendment to the Constitution. . . ."

In *Faber, Coe & Gregg, Inc. v. The First National Bank of Chicago*, 107 Ill. App. 2d 204, 211, 246 N.E.2d 96, 99 (1969), the court stated:

> "From our review of the authorities we believe the Illinois cases to be in agreement with the United States Court of Appeals for the Seventh Circuit, who said in National Lock Co. v. Hogland, 101 F2d 576, at page 587, and in Federal Savings & Loan Ins. Co. v. American Nat. Bank & Trust Co. of Chicago, 392 F2d 906 at page 912:
>
> 'The formal doctrine of election of remedies by judicial decision has been confined gradually to its true remedial purpose as a doctrine of substance; and as stated by an eminent authority on trusts and trustees, should be confined to cases "where (1) double compensation of the plaintiff is threatened or (2) the defendant has actually been misled by the plaintiff's conduct or (3) res adjudicata can be applied." Bogert, Trusts and Trustees, 1935 Vol. IV, § 946'."

To the same effect are *Altom v. Hawes*, 63 Ill. App. 3d 659, 663, 380 N.E.2d 7, 9-10 (1978); *Federal Savings and Loan Insurance Corp. v. American National Bank and Trust Co. of Chicago*, 392 F.2d 906, 912 (7th Cir. 1968).

The erroneous treatment of the election doctrine began in the first opinion of the Seventh Circuit with the statement: "Under the Illinois cases cited by Sears, a plaintiff had to elect his remedies at the time of filing suit because Illinois had retained separate courts of equity and courts of law." (App. 15a) Illinois has not had separate courts of law and equity at least since its Constitution of 1870, which provided (Art. VI, § 12): "The circuit courts shall have original jurisdiction of all causes in law and equity. . . ." Smith-Hurd Ill. Annot. Stat., Constitution, Art. 7-End, p. 451 (1971). And the Illinois Civil Practice Act of 1933 provided for the joinder of legal and equitable claims even *before* the Federal Rules of Civil Procedure were adopted. *See*, Smith-Hurd Ill. Annot. Stat., ch. 110, § 44 and accompanying Historical and Practice Note by A. Jenner and P. Tone, pp. 157-59 (1968).

In both the federal and the Illinois legal systems the relevant principles and modern decisions on the doctrine of election of remedies are the same. A choice of an inconsistent remedy is not enough to bar alternative relief. For the doctrine to apply a party must have gained an advantage or his opponent must have suffered a detriment, *i.e.*, the facts must create an estoppel. The Courts in both systems apply the principles stated in § 392 of Tentative Draft 14 of the Restatement of Contracts 2d (1979):

> "If a party has more than one remedy under the Rules stated in this Chapter, his manifestation of a choice of one of them by bringing suit or otherwise is not a bar to another remedy unless the remedies are inconsistent and the other party materially changes his position in reliance on the manifestation."

Thus under the election doctrine of Illinois and of the federal courts petitioner's judgment at law for his damages does not bar the standard remedy of an accounting for Sears' unjust enrichment profits. The two remedies are not actually inconsistent, since a plaintiff's damages are not the same as a defendant's profits. But even if not consistent, the election of one would not bar the other. There is no basis for an estoppel. Sears was not misled to believe that only an action for damages was asserted: both remedies were sought from the outset. *Res judicata* is not applicable. Any danger of double compensation to petitioner or unfair detriment to Sears would be avoided in the accounting which, as the district court pointed out would, under Illinois law, include "an adjustment of the equities between the parties." (App. 33a)

The court of appeals denied accounting for Sears' unjust enrichment profits that have continued since the entry of the judgment of January 20, 1977. The court does not state any reason for this inequitable ruling. The reason advanced for barring an accounting for the pre-judgment period (that petitioner "elected" to recover damages up to the date of the original judgment) cannot apply after the original judgment. Judge Swygert (who was not a member of the original panel and apparently regarded himself as bound by the law of the case on other issues) dissented for this reason, saying: "In my opinion, Judge Leighton was eminently correct in ordering an accounting" for the period from January 1, 1977 to the date of accounting. "Not only was he following the law of the case as pronounced by this court in our first opinion and the mandate that issued, but he came to a result which the facts, the law of Illinois, and the principles of equity required." (App. 46a-47a)

On March 12, 1980, the majority announced that the effect of their holding would be that Sears "owned all of the patent rights from June 15, 1965 to January 20, 1977, and petitioner shall be considered the owner from January 20, 1977 on." (App. 44a) The majority disregarded the fact that petitioner cannot now license or have the use of his patent during the three years from January, 1977, to the date of the court's *nunc pro tunc* transfer in March, 1980. Petitioner's United States patent, moreover, will expire on September 27, 1982, and the remaining year and one-half of the life of that patent will not permit a meaningful license.

Thus even if the erroneous theory that the majority of the court of appeals adopted for denying pre-judgment restitution were correct, a grave injustice would still be done to the plaintiff, as Judge Swygert pointed out: "By denying the plaintiff an accounting for the period after which his damages were assessed but before he was in a position to benefit from the return of his patents, the majority has, with no justification, left a substantial gap in the plaintiff's rightful recovery." (App. 47a) Judge Swygert concluded: "For me this result not only condones the proven unethical conduct of Sears but it is manifestly unjust to the plaintiff." (App. 48a)

CONCLUSION

WHEREFORE petitioner, Peter M. Roberts, respectfully prays that a writ of certiorari be issued to review the decisions of the United States Court of Appeals for the Seventh Circuit in this case.

Respectfully submitted,

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1980

PETER M. ROBERTS,

Petitioner,

VS.

SEARS, ROEBUCK AND CO., a corporation,

Respondent.

APPENDIX TO PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT

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I

[573 F.2d 976]

Peter M. ROBERTS, Plaintiff-Appellant, Cross-Appellee,

v.

SEARS, ROEBUCK AND COMPANY, a corporation, Defendant-Appellee, Cross-Appellant.

Nos. 77-1354 and 77-1499.

United States Court of Appeals, Seventh Circuit.

Argued Feb. 14, 1978.

Decided April 3, 1978.

[573 F.2d 978]

Before CASTLE, Senior Circuit Judge, SPRECHER and BAUER, Circuit Judges.

SPRECHER, Circuit Judge.

The major issues in this case are whether the district court properly declined to decide the validity of plaintiff's patent in a suit for fraud, breach of a confidential relationship and negligent misrepresentation in defendant's procurement of an assignment of plaintiff's patent rights and whether the district court properly concluded that plaintiff had elected his legal remedies and, therefore, was barred from seeking his equitable remedies of rescission and restitution.

I

This case involves the efforts of one of this nation's largest retail companies, Sears, Roebuck & Co. (Sears), to acquire through deceit the monetary benefits of an invention of a new type of socket wrench created by one of

its sales clerks during his off-duty hours. That sales clerk, Peter M. Roberts (Plaintiff), initiated the unfortunate events that led to this appeal in 1963, when at the age of 18 he began work on a ratchet or socket wrench that would permit the easy removal of the sockets from the wrench. He, in fact, designed and constructed a prototype tool with a quick-release feature in it that succeeded in permitting its user to change sockets with one hand. Based on that prototype, plaintiff filed an application for a United States patent. In addition, since he was in the employ of Sears, a company that sold over a million wrenches per year, and since he had only a high school education and no business experience, he decided to show his invention to the manager of the Sears store in Gardner, Massachusetts where he worked. Plaintiff was persuaded to submit formally his invention as a suggestion to Sears. In May 1964, the prototype, along with a completed suggestion form, was sent to Sears' main office in Chicago, Illinois. Plaintiff, thereafter, left Sears' employ when his parents moved to Tennessee.

It was from this point on that Sears' conduct became the basis for the jury's determination that Sears appropriated the value of the plaintiff's invention by fraudulent means. Plaintiff's evidence proved that Sears took steps to ascertain the utility of the invention and that based on the information it acquired, Sears became convinced that the invention was in fact valuable. Sears had two sets of tests run on plaintiff's wrench by its custom manufacturer of wrenches, Moore Drop Forging

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Co. (Moore). The first test was conducted in July 1964, and it proved that the wrench operated normally and that the quick-release feature did not substantially weaken the structure of the wrench. The second test, conducted in May 1965, showed that actual mechanics liked the quick-release feature. Moore reported the results of these tests to Sears.

Based presumably on these tests, and the expert opinion of its senior tool buyer, Arthur Griesbaum, Sears in

March 1965, l d Moore design a fine-tooth wrench with the quick-release feature built into it. In addition, at about the same time, Sears put in motion plans to incorporate the quick-release feature into then-existing wrench models that constituted 74.27 percent of all the wrenches Sears sold. Thus, by early 1965, it was clear to Sears that this invention was very useful and probably would be quite profitable.

Sears also received reports from Moore regarding the manufacturing cost of plaintiff's quick-release feature. In the initial prototype built by Moore, the cost was 44 cents per unit. By June of 1965, Sears had received a report indicating that the cost could be reduced to 20 cents per unit. Thus, early in 1965, Sears learned that the feature was relatively inexpensive to manufacture.

Sears also took pains to ascertain the patentability of the quick-release feature. In April 1965, it received outside patent counsel's advice that there was "some basis for limited patentability" (defendant's Exhibit 9). It had previously learned in February 1965 from plaintiff's lawyer, Charles Fay, that he believed the invention was patentable based on a limited search. In addition, Sears was informed in early May 1965, by plaintiff's lawyer that a patent had been issued to plaintiff.[1]

With all of this information either available or soon to be available, Sears contacted plaintiff in January 1965, and began negotiations regarding the purchase of rights to use plaintiff's invention. During these negotiations, conducted with plaintiff's attorney, Sears' lawyer, Leonard Schram, made various representations to plaintiff that serve as the essential basis for plaintiff's complaint. In April 1965, in a letter seeking merely a license, Schram first told plaintiff that the invention

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[1] We might note here that Mr. Fay contacted Sears before informing plaintiff that a patent had issued. In addition, it was shown that Sears had contacted Mr. Fay during the period of these negotiations about doing some work for it and that he, in fact, did perform a couple of routine matters for Sears, thus raising some doubt about the independence of his advice to plaintiff.

was not new and that the claims in any patent that would be permitted would be "quite limited" (plaintiff's Exhibit 34). Second, Schram told plaintiff that the cost of the quick-release feature would be 40-50 cents. Third, he told plaintiff the feature would sell only to the extent it would be promoted and thus $10,000 was all that the feature was worth. Finally, and perhaps most ironically, Schram wrote to plaintiff that "[o]nce we have paid off the royalty expense, then we would probably take the amount previously allocated to said expense and use it for promotional expenses *if we desire to maintain sales on the item.*" (Emphasis added).

Based on this letter, plaintiff entered into the agreement on July 23, 1965, which provided for a two cent royalty per unit up to a maximum of $10,000 to be paid in return for a complete *assignment* of all of plaintiff's rights. In fact, for no extra charge, plaintiff's attorney gave Sears all of plaintiff's foreign patent rights. A provision was included in the contract regarding what would happen if Sears failed to sell 50,000 wrenches in a given year, thus reinforcing the impression that the wrenches might not sell very well. Also, a provision was inserted dealing with the contingency that a patent might not be issued, notwithstanding that Sears already knew, and plaintiff did not, that the patent had been granted.

By July, Sears knew that it planned to sell several hundred thousand wrenches with a cost per item increase of only 20 cents, that a patent had issued and that

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this product in all likelihood would have tremendous appeal with mechanics. Nonetheless, it entered into this agreement both having failed to disclose vital information about the product's appeal and structural utility and having made representations to plaintiff that were either false at the time they were made or became false without disclosure prior to the time of the signing of the contract.

Within days after the signing of the contract, Sears was manufacturing 44,000 of plaintiff's wrenches per

week—all with plaintiff's patent number prominently stamped on them—and within three months, Sears was marketing them as a tremendous breakthrough. Within *nine months*, Sears had sold over 500,000 wrenches and paid plaintiff his maximum royalty thereby acquiring all of plaintiff's rights. Between 1965 and 1975, Sears sold in excess of 19 million wrenches, many at a premium of one to two dollars profit because no competition was able to market a comparable product for several years. To say the least, plaintiff's invention has been a commercial success.

Plaintiff, a Tennessee resident, filed suit against Sears, an Illinois Corporation, in federal district court in December 1969, based on diversity jurisdiction, seeking alternatively return of the patent and restitution or damages for fraud, breach of a confidential relationship and negligent misrepresentation. A jury trial was held from December 20, 1976, until January 18, 1977. During the trial plaintiff basically proved the facts as presented above. Sears argued that it did not misrepresent any facts to plaintiff, that he had a lawyer and thus there was no confidential relationship and that the success of the wrenches was a function of advertising and the unforeseeable boom in do-it-yourself repairs, and thus Sears did not misrepresent the saleability of plaintiff's wrenches. The jury was instructed on each of the three counts in plaintiff's complaint and told that it could award plaintiff profits[2] for Counts I and II and could consider a reasonable royalty as a remedy for Count III.

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[2] The court instructed the jury on damages for Counts I and II, fraud and breach of a confidential relationship, as follows:

> The award of money damages you make may equal the net profits which you find the defendant gained as a result of its merchandising of wrenches incorporating Plaintiff's quick release invention and idea, minus any expenditures which you find the defendant has proved it incurred which it would have incurred had it not merchandised such wrenches incorporating plaintiff's quick release invention and idea from the time of the contract in question to the present.

(Tr. at 3469).

The jury apparently believed the plaintiff's evidence because it found Sears guilty on all three counts and entered judgment for one million dollars on each count, but the award was not cumulative.

Both parties filed post-trial motions. Sears filed for judgment NOV and plaintiff sought rescission of the contract and restitution. The district court denied both motions holding as to Sears' motion that the jury verdict was in accordance with the evidence and that the damages award was reasonable and holding as to plaintiff's motion that when he permitted the case to go to the jury he had elected his legal remedy and could not later also seek his equitable relief. Plaintiff appealed seeking equitable relief and Sears cross-appealed the one million dollar judgment against it. Since Sears' cross-appeal raises basic issues of liability, we will deal with it first. We will subsequently consider plaintiff's appeal on the issues of the appropriate remedy.

II

Sears' primary argument in its cross-appeal is that the district court erred in not determining conclusively the validity of plaintiff's patent as a precondition to trying plaintiff's claims for fraud, breach of a confidential relationship and misrepresentation. Relying on *Lear, Inc. v. Adkins*, 395 U.S. 653, 89 S.Ct. 1902, 23 L.Ed.2d 610 (1969), Sears contends that if the district court had concluded that the patent was invalid, then plaintiff could not have been injured by any fraud Sears may

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have committed since it paid $10,000 for a "worthless" invention.

Sears' analysis, however, misconceives the Supreme Court's holding in *Lear*. There the Court held that a patent licensee was not estopped to contest the validity of the licensor's patent, and, in fact, was not required to pay the contractually-provided royalties for the license on the invalid patent during the pendency of the litigation. Contrary to Sears' implication, the *Lear* Court did

not hold that the potentially invalid patent was worthless and thus the royalties offered in exchange for the right to use that patent would be unjustified. Instead, the Court explicitly recognized that there was significant economic value in the rights to an unchallenged patent. 395 U.S. at 669, 89 S.Ct. 1902. In this regard the Court stated that "the existence of an unchallenged patent may deter others from attempting to compete with the licensee," thereby creating a monopoly in fact if not in law. *Id.*[3]

Other courts have also acknowledged that significant economic value attaches to the rights to an uncontested patent. The Supreme Court recognized this recently in an opinion by Chief Justice Burger: "[E]ven though a discovery may not be patentable, that does not 'destroy the value of the discovery . . . .'" *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 482, 94 S.Ct. 1879, 1886, 40 L.Ed.2d 315 (1974). Similarly, this court has held that "[w]hile there are paradoxical aspects of allowing recovery to arise from illegal interference with the sale of something which ultimately was proven to have no sales value, it cannot be said that there was no such value during the period of the presumptive validity of the patent." *Moraine Products v. ICI America, Inc.*, 538 F.2d 134, 149 (7th Cir. 1976).[4]

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[3] This valuable benefit was available even in the case of a non-exclusive license because the royalty charged to the licensee "serves as a barrier to entry." 395 U.S. 669 n. 16, 89 S.Ct. 1910.

[4] The court subsequently defined more specifically the nature of the economic value created by the uncontested patent during the period of its presumptive validity:

> While Moraine was the holder of a presumptively valid patent, it could legally entertain the expectation, unless it had in some manner deprived itself thereof, of receiving royalties from licensing arrangements which in final analysis are agreements in which the licensee is purchasing the right to be free from infringement litigation, which Moraine did have to sell during the period of validity.

538 F.2d at 149.

The facts of this case, by themselves, make abundantly clear both that Sears believed that the uncontested patent had significant economic value as a deterrent to competitors and that the patent, in fact, did serve to deter competitors. Sears had the patent number stamped on all of its wrenches with plaintiff's quick-release feature, which presumably was done for the purpose of scaring off competitors. Also, Sears' competitors did not enter this lucrative market for several years after it became clear that this product had genuine sales appeal, which can only be explained by the existence of the patent.

It is at least somewhat disingenuous for Sears to argue before this court that plaintiff's patent was valueless when it made every effort in its marketing to exploit the economic value of the uncontested patent, received the benefits of a factual monopoly for several years because of that uncontested patent and to this day has refused to return the patent rights to plaintiff in return for the $10,000 originally paid to acquire these "valueless" rights. We, therefore, have little difficulty finding that Sears' deception caused plaintiff to be injured in fact.

The issue remains whether the public interest, recognized in *Lear*, in having patent validity challenged is of such significance that we should extend *Lear* to cover this case. The *Lear* Court held that a licensee should be permitted to contest the validity of a licensor's patent because "[l]icensees may often be the only individuals with enough economic incentive to challenge the patentability of an inventor's discovery." 395 U.S. at

[573 F.2d 982]

670, 89 S.Ct. at 1911. Thus, the Court feared that if licensees "are muzzled, the public may continually be required to pay tribute to would-be monopolists, without need or justification." *Id.*[5]

[5] The policy against deterring licensees from attacking the validity of the licensor's patent also justified not requiring the

(Footnote continued on following page)

We believe that the reasoning in *Lear* does not extend to this case for two reasons. First, we deal here with a complete assignment of plaintiff's patent rights to Sears. *See generally Heltra, Inc. v. Richen-Gemco, Inc.*, 395 F.Supp. 346, 352 (D.S.C. 1975), *rev'd on other grounds*, 540 F.2d 1235 (4th Cir. 1976); Arnold & Goldstein, *Life Under Lear*, 48 Texas L. Rev. 1235, 1244 (1970). Thus, the primary evil that the Court in *Lear* sought to end—that the public might have to pay tribute to a "would-be monopolist"—is completely irrelevant to this case. Plaintiff has no legal basis for exacting any "tribute" until the patent rights are returned to him. At that point in time, the patent's validity can be tested either in an infringement suit or after plaintiff enters into a licensing agreement. The public's interest would not be injured by our decision to bar Sears from contesting this patent at this time.

Second, and perhaps even more fundamentally, the Court's analysis in *Lear* initiated with an assessment of "the spirit of contract law, which seeks to balance the claims of promisor and promisee in accord with the requirements of *good faith*." 395 U.S. at 670, 89 S.Ct. at 1911. (emphasis added). Only after the Court satisfied itself that the equities were balanced on each side did it proceed to a consideration of the needs of patent law and the public interest. Sears' actions in this matter have violated completely the basic assumption in *Lear* that there was good faith in the dealings between the parties. There is no balance of equities between Sears and plaintiff in their contractual relations. For this court to employ

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[5] *continued*
licensee to pay royalties under the license agreement during the litigation. The Court reasoned:

> Enforcing this contractual provision would give the licensor an additional economic incentive to devise every conceivable dilatory tactic in an effort to postpone the day of final judicial reckoning. . . . [T]he cost of prosecuting slow-moving trial proceedings and defending an inevitable appeal might well deter many licensees from attempting to prove patent invalidity in the courts.

395 U.S. at 673, 89 S.Ct. at 1912.

the public interest in patent law to sanction Sears' conduct is unjustifiable. Certainly nothing in patent law requires this court to permit fraud to go unremedied. *Cf. Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 487, 94 S.Ct. 1879, 40 L.Ed.2d 315 (1974) (nothing in patent law discourages states from preventing industrial espionage). We, therefore, hold that the district court properly concluded that *Lear, Inc. v. Adkins*, is no bar to plaintiff's recovery.

III

Having determined that the district court properly declined to decide the validity of the plaintiff's patent, we can readily dispose of Sears' second contention in its cross-appeal. Sears argues that the district court erred in not permitting the introduction of certain evidence dealing with the prior art surrounding plaintiff's invention. Sears, however, attempted to introduce all of the prior art evidence at issue (defendant's Exhibits 25, 26, 29, 33, 34, 39, 40, 41, 42 and 43) for the purpose of proving that the patent was invalid. Since that contention was irrelevant to the case, it seems, *a fortiori*, that the materials introduced to prove it must also be deemed irrelevant to this case.

Sears, however, argues that the district court recognized that patent validity was a relevant issue. By citing materials out of context, Sears has severely mischaracterized the district court's analysis. During the trial, the district court properly recognized that some evidence of prior art was relevant for the issue of Sears' intent. Prior art was relevant to the limited extent that if Sears could prove it knew about the prior art at the time it was negotiating with plaintiff then the jury might conclude that Sears had not intentionally deceived plaintiff about the novelty and value of his invention.

[573 F.2d 983]

The best example of this reasoning by the district court was with regard to the Carpenter patent (defendant's Exhibit 29). In considering its relevance the court

asked when Sears had become aware of the patent. Counsel for Sears stated that the Carpenter patent was not discovered until 1971, after the law suit was initiated (Tr. at 2409). Since it was clear that the Carpenter patent had not entered into Sears' assessment of the value of plaintiff's invention when it made its representations to plaintiff, the district court properly concluded the patent was irrelevant and refused to admit it into evidence (Tr. at 2425). We have examined the record concerning the other prior art evidence that was not admitted and about which Sears complains, and we conclude that the district court properly applied its rule of limited relevance and thereby correctly excluded all of it.

IV

Sears' final argument in its cross-appeal is that plaintiff failed to prove the existence of a confidential relationship between himself and Sears. In assessing that argument, we recognize at the outset that there are no hard and fast rules for determining whether a confidential relationship exists. *See* G. Bogert, The Law of Trusts and Trustees § 482 (2d ed. 1960). The trier of fact must examine all of the circumstances surrounding the relationship between the parties and determine whether "one person reposes trust and confidence in another who thereby gains a resulting influence and superiority over the first." *Kester v. Crilly*, 405 Ill. 425, 91 N.E.2d 419, 423 (1950).

Various factors have been recognized judicially as being of particular relevance to that inquiry. Among them are disparity of age, education and business experience between the parties. *Melish v. Vogel*, 35 Ill.App.3d 125, 343 N.E.2d 17, 26 (1975). Additional factors are the existence of an employment relationship and the exchange of confidential information from one party to the other. *See Yamins v. Zeitz*, 322 Mass. 268, 76 N.E.2d 769, 772 (1948). All five of those factors are present in this case. In addition, one of Sears' witnesses admitted that the company expected plaintiff to "believe" and to "rely" on various representations that Sears made to him (Tr. at

1981). Obviously, this question is best left to the trier of fact, and this court under any circumstances would hesitate to disturb the jury's findings. That hesitation is especially strong here where so many factors suggest that a confidential relationship in fact existed.

Sears argues, however, that there are two factors involved here that eliminate any possible confidential relationship. They are that plaintiff never proved that Sears had knowledge of the confidential relationship upon which plaintiff was relying and that plaintiff retained counsel to guide him, and therefore, did not rely on Sears. We find neither factor sufficient to justify overturning the jury's verdict on this issue.

Sears cites several cases that emphasize that a confidential relationship cannot be thrust upon an unknowing party. *See Broomfield v. Kosow*, 349 Mass. 749, 212 N.E.2d 556 (1965); *Yamins v. Zeitz, supra; Comstock v. Livingston*, 210 Mass. 581, 97 N.E. 106 (1912). That proposition, however, does not lead to the conclusion that a plaintiff must demonstrate by direct evidence that the defendant actually was aware of the confidential relationship. All that must be proved is that the parties engaged in activities under circumstances that created a confidential relationship and that defendant breached that relationship.

In the cases cited by Sears, all of the circumstances surrounding the transactions that were being attacked suggested an arms-length arrangement, and thus the plaintiffs in those cases attempted to thrust a confidential relationship on the unknowing defendants after the fact. Here, Sears' knowledge is circumstantially proved by all of the facts surrounding its dealings with plaintiff. In addition, as suggested above, there was direct

[573 F.2d 984]

testimony to the effect that Sears expected plaintiff to rely on its representations.[6]

[6] Sears also argues that the district court failed to instruct the jury on the issue of Sears' knowledge of the confidential

(Footnote continued on following page)

With regard to the existence of counsel representing plaintiff, we conclude that that is merely one factor to be considered along with all of the others. In fact, once plaintiff established the existence of a confidential relationship through proof of the five factors previously discussed, the burden was on Sears to prove that plaintiff had competent and independent advice. *See Jones v. Washington*, 412 Ill. 436, 107 N.E.2d 672, 674 (1952). The judge instructed the jury on this issue (Tr. at 3467) and it obviously rejected Sears' argument. There is no basis for this court to disturb that determination. Thus, we conclude that a jury could reasonably find that a confidential relationship existed between the parties and that Sears breached its duties created by that relationship.

For all of the above-stated reasons, we find no merit to any of the issues raised in Sears' cross-appeal. We, therefore, affirm the district court's judgment of liability against Sears on all three counts of plaintiff's complaint.

V

Plaintiff, in his appeal, seeks review of the district court's decision that he elected his legal remedies by taking the case to the jury, and therefore, is barred from pursuing his equitable remedies of rescission and restitution. Plaintiff argues that the district court, as a court of equity, should have accepted the jury's liability determination, but should have disregarded its damages verdict and instead should have granted rescission and restitution.[7]

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[6] *continued*
relationship. In view of our holding that knowledge does not have to be proved as an element of the tort, we find no basis for requiring any specific mention of this factor. In our view, the district court's instructions on the confidential relationship issue were proper.

[7] Plaintiff asks this court to leave undisturbed his one million dollar judgment in Count III, negligent misrepresen-

(Footnote continued on following page)

Before considering the substance of the doctrine of election of remedies, we should determine what law, state or federal, should control our decision. Sears relies almost exclusively on Illinois decisions in arguing that after plaintiff takes his case to the jury in a court of law he cannot thereafter seek rescission of the contract from a court of equity. We, however, conclude that federal courts are not bound by the Illinois election of remedies doctrine.

The choice of law issue in diversity cases, where no Federal Rule of Civil Procedure clearly controls, is governed by the Rules of Decision Act, 28 U.S.C. § 1652.[8] *See generally* Redish & Phillips, *Erie and the Rules of Decision Act: In Search of the Appropriate Dilemma*, 91 Harv.L.Rev. 356, 357-58 (1977); Ely, *The Irrepressible Myth of Erie*, 87 Harv.L.Rev. 693, 697-700 (1974). In interpreting that Act, at least one circuit has recognized that where a state procedural rule is derived from a judicial system that is fundamentally inconsistent with the federal judicial system, then the state rule need not be slavishly adhered to by a federal district court. *Atkins v. Schmutz Mfg. Co.*, 435 F.2d 527 (4th Cir. 1970), *cert. denied*, 402 U.S. 932, 91 S.Ct. 1526, 28 L.Ed.2d 867 (1971). *See also* Redish & Phillips, *supra* at 391 n. 189.

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[7] *continued*
tation, because that is an action at law and therefore was properly given to and decided by the jury.

As to Counts I and II, plaintiff claims that the evidence proves that Sears' profits on the sale of quick-release wrenches was in excess of 40 million dollars. Sears argues that that figure is based on a misinterpretation of Sears' sales techniques. Given our disposition of this case, we need not resolve this dispute, although we do agree with the district court that the jury's damage award was not unreasonable.

[8] The Act provides:

> The laws of the several states, except where the Constitution or treaties of the United States or Acts of Congress otherwise require or provide, shall be regarded as rules of decision in civil actions in the Courts of the United States, in cases where they apply.

28 U.S.C. § 1652.

Under the Illinois cases cited by Sears, a plaintiff had

to elect his remedies at the time of filing suit because Illinois had retained separate courts of equity and courts of law. *See, e.g., Carr v. Arnold*, 239 Ill. 37, 87 N.E. 870 (1909). In federal courts, however, the distinction between law and equity has long been abolished. Fed.R.Civ.P. 2. It would be anomalous to follow a state rule created under a judicial system so at odds with that of the federal system. In fact, it might be argued that such a holding would violate Rule 2, in which case state law, of course, would be disregarded. *See Hanna v. Plumer*, 380 U.S. 460, 469-74, 85 S.Ct. 1136, 14 L.Ed.2d 8 (1965). We, therefore, feel no compunction in declining to follow Illinois law on this issue.[9]

Having determined that the district court is not bound by the rigid requirements of Illinois law on election of remedies, there remains the question whether plaintiff can still pursue his equitable remedies under the facts of this case. We conclude that the district court correctly decided not to disturb the jury's monetary award, but that the court erred in not considering whether rescission of the contract and return of plaintiff's patent were appropriate.

The general rule as to when an election is necessary is that "'a certain state of facts relied on as the basis of a certain remedy is inconsistent with, and repugnant to,

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[9] This result accords with the approach recently suggested in Redish & Phillips, *supra*. The authors in that article suggest that the best approach to Rules of Decision Act cases is to examine the policy underlying the state rule to determine if it affects primary conduct, is intended to benefit one class of litigants over another or is merely the state's evaluation of the most efficient way to handle its docket. *Id.* at 394-96. The Illinois rule separating the courts would appear to fall within the third category. In such a situation, the authors conclude, "The federal diversity court should be permitted to adopt or reject such rules since, as noted previously, it retains some interest in regulating its own internal procedures." *Id.* at 395. We agree with that conclusion.

another certain state of facts relied on as the basis of another remedy.'" *Prudential Oil Corp. v. Phillips Petroleum Co.*, 418 F.Supp. 254, 257 (S.D.N.Y. 1975). Here, the jury was instructed that plaintiff could receive profits for Counts I and II, fraud and breach of a confidential relationship.[10] Apparently dissatisfied with the size of the jury verdict, plaintiff sought in a post-trial motion to have the court reconsider the evidence and award relief based on essentially the same standard the jury used. To have granted plaintiff's request would have been completely unfair to Sears.[11] It might have been better for the court to require the plaintiff to elect his remedy expressly prior to instructing the jury, but plaintiff did not object to the court's procedure, and therefore, must have been satisfied to let the jury determine the appropriate award. Having let the case go to the jury without getting the issue clarified, plaintiff should not be heard to complain about the outcome of that procedure.

With regard to an election between the profits awarded by the jury and return of the patent based on rescission, however, we see no basis for invoking the election of remedies doctrine. Based on the jury instruction, plaintiff will receive one million dollars as the measure of *past* profits earned by Sears up to the time of trial. That award, however, is not inconsistent with return of the patent so that plaintiff can receive the *future* benefits of the patent that Sears fraudulently acquired. There will be neither a double recovery nor a factual inconsistency between these remedies. *See Prudential Oil Corp., supra* at 257; G. Bogert, The Law of Trusts and Trustees § 946 (2d ed. 1962). Therefore, we conclude that

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[10] *See* note 2 *supra.*

[11] The district court reasoned that such an approach would create the type of res judicata problems mentioned in our earlier decision in *Federal Savings & Loan Ins. Corp. v. American Nat'l Bank & Trust Co.*, 392 F.2d 906 (7th Cir. 1968). While we do not perceive any basis for a claim of res judicata or even a double recovery problem, we do believe it would have been unfair to disturb the jury's award, and, therefore, agree with the district court's decision not to do so.

going to the jury under a past profits instruction did not

bar plaintiff from seeking rescission and thereby possibly recovering his patent. Whether rescission is appropriate, however, is an issue that should be decided in the first instance by the district court.

For the reasons stated above, we affirm the district court's judgment against Sears on all three counts in plaintiff's complaint and the court's decision not to alter plaintiff's monetary award, but reverse the court's determination that it lacked the power to award rescission and remand to the district court for a determination of whether rescission is appropriate under the facts of this case.

Affirmed in part; Reversed in part; and Remanded.

II

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Peter M. ROBERTS, Plaintiff,

v.

SEARS, ROEBUCK AND CO., a corporation, Defendant.

No. 69 C 2573.

United States District Court,
N. D. Illinois, E. D.

May 31, 1979.

[471 F.Supp. 374]

MEMORANDUM

LEIGHTON, District Judge.

This suit alleging fraud, breach of confidential relation, negligent misrepresentation, and unjust enrichment, is by Peter M. Roberts, a former employee, against the Sears, Roebuck Company, his former employer, for damages and rescission of a contract by which he assigned all his rights, including patents, to a quick release device for socket wrenches. A second amended complaint invoked the jurisdiction of this court on the ground that the parties are of diverse citizenship, and that the requisite jurisdictional amount is involved. Plaintiff prayed for rescission of the contract, return to him of certain issued patents, and for disgorgement of the unjust enrichment which allegedly had accrued to the defendant. The case was tried before a jury that returned three verdicts in plaintiff's favor, each for damages in the sum of $1,000,000 on his claims of wrongdoing by defendant.

Judgment was entered for plaintiff in the amount of $1,000,000, it being conceded that the verdicts were non-

cumulative. Then, in a post-trial motion based on the jury's verdicts, plaintiff asked this court to grant him the equitable relief for which he had prayed, and payment to him of $44,000,000 by which, according to the evidence, defendant had been unjustly enriched through the use of plaintiff's property rights in the device he had

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invented. The motion was denied, this court concluding that having submitted his claim for damages to a jury, the doctrine of election of remedies barred plaintiff from obtaining restitutionary relief. Both parties appealed.

The court of appeals approved the jury's findings, concluded that the three verdicts were proper, and affirmed the judgment in plaintiff's favor. It held, however, that it was error, in this instance, to apply the Illinois doctrine of election of remedies; and that while this court had "correctly decided not to disturb the jury's monetary award, . . . [it had] erred in not considering whether rescission of the contract and return of plaintiff's patents were appropriate." *Roberts v. Sears, Roebuck & Co.*, 573 F.2d 976, 985 (7th Cir.), *cert. denied*, 439 U.S. 860, 99 S.Ct. 179, 58 L.Ed.2d 168 (1978). Accordingly, that part of the court's judgment which denied equitable relief was reversed and remanded for a determination whether rescission is proper under the facts of this case.

The cause has been redocketed; the parties have stated their respective positions. They agree that no further evidence is to be heard; and that the mandate of the court of appeals can be complied with on a record which now consists of the pleadings, the evidence presented to the jury, the decision of the reviewing court, and the briefs of the parties stating their contentions. Therefore, the court will proceed to consider and decide whether under the facts of this case plaintiff is entitled to rescission of the contract by which he assigned to defendant all his rights to the quick release device for socket wrenches, including patents. A necessary starting point is a statement of the facts which must have persuaded the jury to return its verdicts.

I.

Peter M. Roberts was born on January 18, 1945. When he was a 17 year old high school student, he worked part-time for the Sears, Roebuck Company in Gardner, Massachusetts. After finishing high school, he became a full-time sales clerk for the company. His education extended only to a high school diploma; and he did not have any business experience.

In 1963, while a minor 18 years of age, he worked on his own time and developed a quick release device that enabled the user of a wrench, with one hand, to change a socket of one size to one of another. He designed, tooled, and made a prototype of his invention. Then he had a Worcester, Massachusetts lawyer file an application on his behalf for a United States patent. Roberts knew that Sears, his employer, sold more than 1,000,000 wrenches each year. Therefore, he decided to show his invention, and the only prototype of it then in existence to the manager of the store in which he worked. Roberts was persuaded to submit his invention, along with the prototype, as a Sears employee suggestion to the company. Consequently, on May 7, 1964, the suggestion form which showed that a patent for the device was pending, and the prototype, were sent to the Sears main office in Chicago, Illinois. A short time later, Sears closed its Gardner, Massachusetts store; Roberts moved to Tennessee with his parents.

Roberts did not hear from Sears concerning his employee suggestion or about the evaluation of his invention. On one occasion he called Sears Chicago office long distance and spoke to a woman who seemed to be familiar with the subject; he wrote a letter on January 5, 1965 seeking information about the status of his suggestion, but he received no response. Then, sometime around the end of January 1965, while at his place of employment in Newport, Tennessee, he received a telephone call from Leonard Schram, a Sears attorney, who asked for the name of the lawyer who was processing the patent application for Roberts. After answering Schram's question, Roberts asked him, "what was happening with my device and he said that they

were looking into it with some interest and they might be interested in it on some parts of their lines. . . ." Roberts then asked Schram what Sears had concluded about the invention's value; but, "he wouldn't give me an

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answer. He just said, 'Well, sometimes inventors get more for their ideas than they are really worth, or try to get more for their ideas than they are really worth,' and that if he was interested, he would let me know." Schram, although he knew what Sears had done with the prototype of Roberts' invention since it was received in May 1964, did not tell Roberts the facts, nor the real reason for the telephone call.

In April 1965, through the Massachusetts lawyer, Sears wrote to Roberts and began negotiations for a license to use the quick release device. In letters written by Schram, the company stated that, in its judgment, the invention was not new; that any claim granted on the patent application would be "quite limited"; that the cost of adding the quick release feature to its wrenches would be 40¢ to 50¢ for each unit, and that in its appraisal, Roberts' invention as a feature on a Sears wrench would sell only to the extent that it was promoted. Therefore, a license for its use was worth $10,000. Sears' agents knew that Roberts trusted the company for which he had worked; and they expected him to accept as true the representations they were making in the effort to purchase a license for his quick release feature. Roberts, relying on what was transmitted to him from Sears by the Massachusetts lawyer, accepted as true the representations which had been made. On June 15, 1965, as far as he was concerned, the negotiations with Sears were concluded when he signed a memorandum agreement, the contract at issue in this case.

This agreement was prepared by Sears' lawyers; it was signed by Roberts when he was still a minor.[1] Its

[1] This fact was known to Sears because in Roberts' personnel file was his original employment application in which he had told Sears his date of birth.

contents and their legal meaning were never explained to him; he did not employ an attorney in Tennessee where he was then living. He relied on what the Massachusetts lawyer told him; but unknown to Roberts, Sears had employed that lawyer, while he was purportedly acting for Roberts, to protect the company's interests with regard to certain patents Sears anticipated would be issued for the quick release device. The agreement, as it was worded, was not one for a license, as had been first proposed by Sears; it provided for an assignment to Sears of all of Roberts' rights in his invention, including worldwide patent protection. It contained language suggesting that Sears did not expect to sell more than 50,000 wrenches with the feature in any year; it provided against the contingency that a patent would not issue on the Roberts' application. The total amount Roberts was to receive for his invention was $10,000, payable in a 2¢ royalty per unit.

Roberts entered into the memorandum agreement totally ignorant of what Sears had done in determining the value of his invention. He was not informed of relevant and important facts which were known only to Sears and its agents. Contrary to the impression Schram created when he told Roberts that the company was "looking into it [the device] with some interest and . . . might be interested in it on some parts of [its] lines . . .", the company had thoroughly explored and investigated the value of the quick release feature. Virtually on receiving the prototype of the invention in May 1964, Sears had it examined, and through experts at its disposal became convinced it was a highly marketable and valuable item. Copies of the prototype were immediately made. One of the questions raised by those responsible to Sears for the marketing of wrenches was whether Roberts' insertion of the release feature weakened a wrench to the extent that it could not stand use by a mechanic. Therefore, Sears' custom manufacturer of wrenches was requested to subject a copy of the prototype to physical tests. And in order to determine market acceptance of the new invention, a number of garage mechanics were asked to use one. These steps were taken in the summer and late fall of

1964. The physical tests proved that Roberts' modification of the ratchet wrench with his feature was usable;

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the market test established that mechanics would be enthusiastic in welcoming what was a unique solution to a problem that had long burdened users of socket wrenches. Sears, through experts in the several fields, knew all of these facts long before Schram called Roberts late in January 1965.

Indeed, during the month of October 1964, based on tests that had been conducted for it, Sears ordered the incorporation of Roberts' quick release device into a completely new line of "fine tooth" ratchet wrenches then being developed for its market. Arther Griesbaum, Sears' senior buyer for mechanics' tools, and the company's most knowledgeable employee concerning the marketing of such items, early expressed the view that Roberts' invention could be built into Sears' traditional style wrenches at "very little additional cost." Griesbaum and Schram had exchanged information on this subject before Schram called Roberts in Newport, Tennessee.

In fact, while Sears was negotiating with Roberts, it directed the manufacturer of its wrenches to incorporate the quick release feature into models that constituted 74.27% of the approximately 1,000,000 wrenches it sold annually. Thus, early in 1965, while downgrading its value, Sears negotiated for Roberts' invention knowing it was useful, highly promotable, and would most likely be profitable. The company anticipated that sales in the first year alone would total 750,000 units. This figure was quite in contrast with the language of the contract Roberts was asked to sign, an agreement which suggested that 50,000 wrenches was the limit Sears expected to sell in any one year with the Roberts' invention. In addition, while Sears was telling Roberts that the cost of inserting the quick release feature in its wrenches was going to be approximately 44¢ per unit, the company knew, before Roberts signed the memorandum agreement in June 1965, that the cost per unit was

going to be approximately 20¢; and that, in contrast with its representations, the quick release feature was going to be relatively inexpensive to manufacture. As to the prospects of the patent, Sears had learned from the Massachusetts lawyer in February 1965 that the invention was patentable; it had the advice of its own patent attorneys on the prospects of patentability; and before the memorandum agreement was prepared by lawyers for Sears, the company had been informed that the claims of Roberts' patent application had been allowed by the United States Patent Office. Therefore, language in the memorandum agreement signed by Roberts hedging against the possibility that a patent would not issue was contrary to the facts known by Sears and its lawyers.

Within days after Roberts signed the memorandum agreement, although Sears represented it did not expect to sell more than 50,000 wrenches with the feature in any year, more than 44,000 wrenches with the quick release device incorporated were being manufactured per week. On each wrench was the number of the patent that issued on Roberts' application. Within three months after Roberts signed the agreement, Sears was marketing wrenches with the quick release feature, advertising this new invention as a tremendous breakthrough in the use of socket wrenches. Within nine months after reaching agreement with Roberts, Sears had sold more than 500,000 wrenches with the quick release feature; thus, it was able to pay Roberts all of the $10,000 in royalties called for under the memorandum agreement.

After receiving the last payment, Roberts executed assignments which had been prepared by Sears' lawyers, conveying to the company all his right, title and interest in his quick release invention, including those governed by the laws of foreign countries, foreign patent protection, and any patents which had issued, or might thereafter issue. Then he did military service in the United States Air Force, and was stationed in England until 1969. Roberts sought legal counsel concerning his contract with Sears while on military duty; but he was

informed by Air Force lawyers that they were unable to assist him; their advice was that he seek legal advice on return to the United States. Roberts returned to this country, sought legal advice, and thereafter, served

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notice on Sears of his election to rescind the June 15, 1965 agreement and have returned to him the issued patents. The money he had been paid was tendered to the company; it was refused, and this suit followed.

In the trial of the case, the jury heard evidence bearing on the material facts which showed that from 1965 to December 31, 1976, Sears earned an incremental profit of $44,032,082 from the sales of its wrenches with Roberts' quick release feature. The parties argued their respective contentions and filed written requests for instructions on the applicable rules of law. The court passed on these requests; it instructed the jury that based on his allegations and proof, Roberts was asserting three claims against Sears. The first was that his former employer defrauded him of his rights to the quick release device he had invented; the second, that his former employer breached the confidential relation between them, one that arose out of the pre-existing relationship of employee and employer, the trust he had placed in Sears; the third, that his former employer had engaged in negligent misrepresentations concerning its knowledge of the value of his invention, the invention's potential sales, and its public acceptance.

The jury deliberated and then returned three separate verdicts in favor of Roberts on his three claims. It assessed damages on each in the sum of $1,000,000. Thereafter, Sears filed a post-trial motion for judgment notwithstanding the verdicts or, alternatively, for a new trial. After hearing the parties, this court denied the motion and entered judgment.

II.

It is a rule of general acceptance that "[a]n order denying a new trial leaves the findings of the jury

intact; it imports findings of fact consistent with the action taken, and constitutes in effect a determination by the trial court that the weight of the evidence justified the verdict." 66 C.J.S. *New Trial* § 210b(1) (1950); *compare McDonald v. Risch*, 41 Ill.2d 242, 242 N.E.2d 245 (1968). Therefore, when this Court denied the motion for a new trial, it implicitly made findings of fact consistent with the verdicts that had been returned, verdicts by which the jury concluded[2] that Sears committed fraud on Roberts in the way it acquired all of his rights to the quick release device he invented; that Sears breached the confidential relation that existed between Roberts and the company, one that arose out of a pre-existing relationship of employee and employer; and that Sears, in its negotiation for the quick release device committed negligent misrepresentations concerning the company's knowledge of the invention's value, its saleability, and its public acceptance.

This is a case in which federal jurisdiction was invoked on the ground of diversity of citizenship of the parties. Therefore, the substantive law of Illinois as well as its applicable conflicts of laws decisions are controlling. *Hartford Accident & Indemnity Co. v. Crider*, 392 F.Supp. 162, 167 (N.D.Ill.1974). In Illinois, the elements of fraud which would justify rescission of a contract by a suit in equity are the same as those which would sustain an award of damages in an action at law. *Welch v. Brunswick Corporation*, 10 Ill.App.3d 693, 698, 294 N.E.2d 729, 732 (1st Dist. 1973). It is the law in

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[2] Where jurisdiction is founded on diversity of citizenship, and state-created rights are sought to be enforced in a federal court, a general verdict will be construed as the forum state would construe it. In this case, then, the verdicts of the jury are to be construed liberally with the view to effectuating its intention, if that is possible, *Churchill v. Norfolk & W. Ry. Co.*, 46 Ill.App.3d 781, 5 Ill.Dec. 885, 362 N.E.2d 356 (4th Dist. 1977); and in doing so, reference should be made to the entire proceedings, including the pleadings, instructions and evidence. *Martin v. McIntosh*, 37 Ill.App.3d 526, 346 N.E.2d 450 (5th Dist. 1976). It is in this way that this court has deduced the conclusions of the jury in the verdicts it returned.

Illinois that where the subject matter of a contract is acquired through fraud, *Wiebrecht v. Shapiro*, 54 Ill.2d 527, 301 N.E.2d 293 (1973); *MacAuley v. Rickel*, 96 Ill.App.2d 283, 238 N.E.2d 603 (2d Dist. 1968); or through the breach of a confidential relation, *Swiney v.*

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Womack, 343 Ill. 278, 175 N.E. 419 (1931); or through misrepresentation, *Douglass v. Treat*, 246 Ill. 593, 92 N.E. 976 (1910); rescission, as a remedy, is available through an action in equity. When this remedy is sought, it is to declare an agreement void from its inception. *Farmers Automobile Insurance Ass'n v. Pursley*, 130 Ill.App.2d 980, 985, 267 N.E.2d 734, 737-38 (5th Dist. 1971). The right to this form of equitable relief may be brought about either by operation of law, by agreement of the parties, express or implied; "or, it may come into being as a right at law arising from the conduct of the other party." *Bowser, Inc. v. Hamilton Glass Co.*, 207 F.2d 341, 343 (7th Cir. 1953).

Equity jurisprudence of Illinois is not radically different from that of other American jurisdictions. Thus, in *Operative Service Corporation v. McIntyre Pump Co.*, 85 Colo. 519, 277 P. 773 (1929), the decision of the Supreme Court of Colorado was consistent with that of the Supreme Court of Illinois in *Hicks v. Stevens*, 121 Ill. 186, 11 N.E. 241 (1887), both courts holding that an assignment or contract for the sale of a patent or interest therein may be rescinded or cancelled in equity where recognized equitable grounds therefor exist. *Compare Nichoalds v. McGlothlin*, 330 F.2d 454 (10th Cir. 1964); *see* 69 C.J.S. *Patents* § 241b(1) (1951); 4 Deller, Walker on Patents § 379 (2d ed. 1965). In *Page v. Dickerson*, 28 Wis. 694 (1871), the Supreme Court of Wisconsin had before it a case like the one ruled on by the Illinois Supreme Court in *Hicks v. Stevens* and, applying the same equity principles, reached the same result. Later, in *Leonard v. Barnum*, 34 Wis. 105 (1874), the court had before it a contract for the sale of rights to a patent; the controversy gave rise to factual issues similar to those resolved by the jury in this case.

Referring to the fact that some of the plaintiffs were minors, and to allegations of fraud similar to those found in plaintiff's complaint in this case, the Wisconsin court said,

> "[T]he rule is familiar and almost axiomatic, that where parties occupy with respect to each other peculiar relations in which confidence is necessarily reposed by one party and influence is acquired by the other, all transactions and dealings between them are watched by courts of equity with more than ordinary jealousy to see that such confidence is not betrayed. Such courts always take into account all the circumstances, and the situation of the parties dealing with each other; and especially is this true where the party imposed upon is an infant or is *inops consilii*.[3] Fraud is so various in its nature and so extensive in its application to human concerns, that it has been found impossible to give a full definition of it, ..." 34 Wis. at 109.

The contract in the case was ordered rescinded.

The Supreme Court of Oregon, also in a case involving a contract for the sale of patent rights, reached the same result in *Paulson v. Kenney*, 110 Or. 688, 224 P. 634 (1924). *Lederer v. Yule*, 67 N.J.Eq. 65, 57 A. 309 (1904), was an instance where a New Jersey court of equity, because of fraud and misrepresentation, granted rescission of a contract for the sale of rights to a patent. In *Goldsmith v. Koopman*, 140 F. 616 (S.D. N.Y. 1905), a federal court had before it a complaint to set aside an assignment of rights to an invention protected by United States and foreign patents. The grounds alleged were fraud, breach of a confidential relation, and misrepresentation. The district court, relying on principles of equity analogous to those of Illinois, decreed rescission of the transaction and granted restitutionary relief. 140 F. at 621.

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[3] This phrase means a person without the aid of counsel. In the case of persons *inops concilii* and illiterate, the law will especially favor them in the construction of any deed they execute, applying liberally the rules of conveyance. *See Davenport v. Wynne*, 28 N.C. 128, 44 Am. Dec. 70 (1845).

III.

There is no reason why a different result should be reached in this case. The mandate of the court of appeals directed this court to consider whether here, on

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the facts shown in the record, rescission is appropriate. After reviewing the pleadings, the evidence, the prior rulings, and applying the controlling principles of equity, it is this court's judgment that Roberts is entitled to a decree rescinding his June 15, 1965 contract with Sears. Therefore, a decree of rescission will be entered.

IV.

Rescission is the termination of a contract with restitution. *Horan v. Blowitz*, 13 Ill.2d 126, 148 N.E.2d 445 (1958); I.L.P. *Contracts* § 341 (1955). It is an equitable doctrine, a form of equitable relief. *Hakala v. Illinois Dodge City Corp.*, 64 Ill.App.3d 114, 21 Ill.Dec. 1, 380 N.E.2d 1177 (2d Dist. 1978); *see* Leighton, Elements of Equitable Relief, 2 J.Mar.J. of Prac. & Proc. 230, 250-253 (1969). When it is sought and granted for fraud, an Illinois court of equity usually grants the defrauded party the full remedy to which, under the circumstances, he may be entitled. *Van Koten v. Van Koten*, 323 Ill. 323, 154 N.E. 146 (1926); 37 Am.Jur.2d *Fraud & Deceit* § 338 (1968). The courts of Illinois recognize the general rule that

> "[t]he essence of equity jurisdiction has been the power of the Chancellor to do equity and to mould each decree to the necessities of the particular case. Flexibility rather than rigidity has distinguished it. The qualities of mercy and practicality have made equity the instrument for nice adjustment and reconciliation between the public interest and private needs as well as between competing private claims." *Hecht Co. v. Bowles*, 321 U.S. 321, 329-30, 64 S.Ct. 587, 592, 88 L.Ed. 754 (1944).

See First National Bank v. Bryn Mawr Beach Bldg. Corp., 365 Ill. 409, 6 N.E.2d 654 (1937). For these

reasons, in this case, rescission having been decreed, restitutionary relief will be granted with the court bearing in mind the competing claims of Roberts and Sears to the subject matter of the rescinded contract.

First, Sears will be ordered to reassign to Roberts, his successors, legal representatives or assigns, all right, title and interest which the company acquired from him, in and to United States Letters Patent No. 3,208,318 and Letters Patent of Canada No. 757,826, both patents issued to Roberts on September 28, 1965 and May 2, 1967, respectively, for an invention relating to a quick release device for socket wrenches. Within 10 days after the entry of the rescission decree, the two patents, divisions, reissues or extensions thereon obtained or to be obtained by Sears in the United States or in any foreign country, and the executed assignments of each patent, shall be delivered to H. Stuart Cunningham, Esq., Clerk of this court. Thereafter, the Clerk is directed to allow Roberts and his counsel a reasonable period of time to examine the patents, the assignments, and all documents pertaining thereto; and upon their expressing satisfaction that all have been delivered in compliance with the decree, the parties, on a day to be set, will appear in open court for delivery and acceptance of the documents, and in order to record satisfaction of this portion of the rescission decree. Looking to the possibility that Sears will not perform these specific acts, the decree will contain provisions invoking the in rem powers of this court sitting in equity. *See* Rule 70, Fed.R.Civ.P.; Leighton, Development of In Rem Powers of Courts of Equity, 5 Nat. Bar J. 1 (1947).

However, return of the patents to Roberts has in fact been suggested by Sears. A short time after this case was docketed on remand, Sears offered to make the reassignment and delivered proposed drafts to Roberts through his lawyers in this case. The offer was rejected because Sears' proposed assignments did not include returning to Roberts the right to recover damages and profits, due or accrued, arising out of past infringements of the patents, if any there have been. In the judgment

of this court, Roberts is correct in insisting that reassignments of the two patents include his right to recover for past infringements, and for damages and profits due or accrued on the patents. Therefore, the terms of the reassignments will be in accordance with

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those contained in Appendices "A" and "B" which will be attached to the decree.

Second, Sears will be ordered to account for and pay to Roberts all of the profits it has earned from the use of the quick release device, from May 7, 1964 when it acquired the prototype to the present.[4] Sears argues that this court cannot order it to account for its profits from Roberts' invention because the court of appeals' mandate specifically limited jurisdiction on remand to whether rescission is an appropriate remedy in this case; and if so, the return of the patents to Roberts. The argument relies on language in the reviewing court's opinion which Sears contends restricts Roberts only to the relief of having his patents returned to him in the event rescission is granted by this court. Roberts, of course, argues to the contrary. He insists that recission, in the proper case, means more than restitution of the property obtained by fraud; and, insisting that this is such a case, he argues that rescission may require an accounting and disgorgement of any unjust enrichment.[5]

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[4] The accounting will necessarily include a report by Sears of its stock of ratchet wrenches with Roberts' quick release device incorporated, and the profits which can be anticipated from their sales. Sears is not to order any further manufacture of such wrenches after the date of the decree of rescission. Wrenches to be delivered on contracts of manufacture entered into in the past will have to be the subject of supplemental orders to be entered by this court. Appropriate orders governing further discovery will also be entered.

[5] It is unnecessary to repeat the jury's findings that Sears acquired Roberts' invention by fraud, breach of a confidential relation, and negligent misrepresentations. This court approved those findings when it denied Sears' motion for a new trial. The court of appeals affirmed, saying that "[t]his case

(Footnote continued on following page)

This court has studied the opinion of the court of appeals knowing full well that an inferior court is bound by the mandate of the superior one, and must carry its directions into execution. *Sibbald v. United States*, 37 U.S. (12 Pet.) 488, 9 L.Ed. 1167 (1838); *Briggs v. Pennsylvania R. Co.*, 334 U.S. 304, 306, 68 S.Ct. 1039, 92 L.Ed. 1403 (1948); *see United States v. Fernandez*, 506 F.2d 1200, 1202 (2d Cir. 1974). It is clear, however, that the mandate in this case does not have the restriction argued by Sears. Certainly, the court of appeals did not say that rescission means one thing for Roberts and another for other litigants. The language to which reference is made was used by the court when it discussed the consideration the jury must have given to Sears' profits from Roberts' invention when damages on the three claims were awarded. The jury was instructed that "[i]f you find in favor of the Plaintiff . . . then, one of the elements of the money damages to be considered by you . . ." was Sears' profits. Concerning Roberts' first and second claim: fraud, and breach of confidential relation, the jury was told that "[t]he award of money damages you make may equal the net profits which you find the Defendant gained as a result of its merchandising of wrenches incorporating Plaintiff's quick release invention and idea. . . ." In each of its three verdicts, the jury stated that "we assess damages in favor of plaintiff, which we find to be in the sum of $1,000,000." Thus it appears that for the injury inflicted on him by Sears; that is, the fraud, the breach of confidential relation, the misrepresentations, and the twelve years of worry about his invention and his rights in it, the jury awarded Roberts damages in the sum of $1,000,000. *See* 1 C.J.S. *Actions* § 15a (1936); 25 C.J.S. *Damages* §§ 1, 2 (1966).

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[5] *continued*
involves the efforts of one of this nation's largest retail companies, Sears, Roebuck & Co. (Sears), to acquire through deceit the monetary benefits of an invention of a new type of socket wrench created by one of its sales clerks during his off-duty hours." *Roberts v. Sears, Roebuck & Co.*, 573 F.2d at 978.

Damages, as that term is ordinarily used, mean simply a measure of injury. *Kozar v. Cheasapeake & O. Ry. Co.*, 449 F.2d 1238, 1240 (6th Cir. 1971). The purpose of damages is to place the injured person in the same position, so far as money can do it, as he would have been had there been no injury or breach of duty; that is, to compensate him for the injury actually

[471 F.Supp. 382]

sustained. *Lee v. Southern Homes Sites Corp.*, 429 F.2d 290 (5th Cir. 1970). Being compelled to disgorge money by which one has been unjustly enriched is different from being compelled to pay damages.

The terms "restitution" and "unjust enrichment" are modern designations for the older doctrine of "quasi contracts" *Hixon v. Allphin*, 76 Idaho 327, 281 P.2d 1042, 1045 (1955). The doctrine of unjust enrichment is an equitable one; damages is a legal remedy. 22 Am.Jur.2d *Damages* §§ 1, 2 (1965). In awarding damages, the law seeks to make the injured party whole, as far as money can; in applying the doctrine of unjust enrichment and compelling disgorgement, where property is fraudulently obtained through a contract, equity seeks to

> "require the wrongdoer to restore what he has received and thus tend to put the injured party in as good a position as that occupied by him before the contract was made." 5 Corbin, Contracts § 1107, at 573 (1964).

In Illinois, it has long been the law that where the right to rescind a contract exists, the person with the right is entitled to an accounting of the profits made from the property conveyed, and an adjustment of the equities between the parties. *O'Halloran v. Fitzgerald*, 71 Ill. 53 (1873); *Corzine v. Keith*, 384 Ill. 425, 51 N.E.2d 538 (1943); *Doom v. Doom*, 8 Ill.App.3d 186, 289 N.E.2d 243 (4th Dist. 1972).

In this case, the accounting by Sears of its profits from Roberts' invention and a determination of the sum of money by which it has been unjustly enriched are to

be made at a hearing to be conducted by this court. Roberts argues against such a hearing. He contends that he presented evidence to the jury, much of it uncontroverted, which proved that up to and including December 31, 1976, Sears had earned an incremental net profit of $44,032,082 from its use of his invention. Net incremental profit is the additional earning Sears made in excess of the profit it obtained on a ratchet wrench without the quick release device, less the additional cost incurred by incorporating the feature. These being the facts, Roberts insists that this court should order Sears to pay him the net incremental profits it has earned from his invention, less the $1,000,000 jury award. As to the period from January 1, 1977, concerning which Sears has not disclosed the amount of its sales and profits, Roberts argues that the accounting should be referred to a magistrate to sit as a master, hear evidence, determine the extent of Sears' unjust enrichment, and recommend a disposition.

The court does not agree. Roberts' proof of Sears' profits was made to the jury for the purpose of establishing a basis on which damages could be awarded. The accounting which Sears will be required to make is for the purpose of determining the amount of money by which it has been unjustly enriched through its use of an invention it acquired by fraud, breach of a confidential relation, and negligent misrepresentations. When Sears defended Roberts' claims before the jury, it was not called on to defend a charge that it had been unjustly enriched, and thus be called upon to disgorge profits it had made out of the quick release device.

Therefore, this court will hold the accounting hearing. It is familiar with this case and with the nuances of the issues involved. For these reasons, it would be a waste of judicial resources for either a magistrate or a master to undertake the hearing that will be required. Roberts, of course, can rely, if he desires, on the evidence he presented to the jury; he can also point to his proof of the net incremental profit he claims Sears has earned. Whether by the accounting it will be determined that the amount he is entitled to receive from Sears is $44,032,

082, reduced by the $1,000,000 jury verdict, is a matter to be seen. In any event, the accounting hearing will vindicate the principle that equity will not permit a person to derive any benefit from a fraud perpetrated by him. *Duncan v. Dazey*, 318 Ill. 500, 525, 149 N.E. 495 (1925); *Callner v. Greenberg*, 376 Ill. 212, 33 N.E.2d 437 (1941); *compare Goldsmith v. Kooperman*, 152 F. 173 (2d Cir. 1907).

III

[617 F.2d 460]

Peter M. ROBERTS, Plaintiff-Appellee,

v.

SEARS, ROEBUCK AND CO., a corporation, Defendant-Appellant.

No. 79-1616.

United States Court of Appeals,
Seventh Circuit.

Argued Jan. 7, 1980.

Decided March 12, 1980.

[617 F.2d 461]

Before SWYGERT, SPRECHER and BAUER, Circuit Judges.

SPRECHER, Circuit Judge.

This appeal arises out of a basic misunderstanding upon remand of the mandate conveyed by the prior appeal.

I

The plaintiff inventor sued the defendant retail store chain for breach of confidential relation, fraud, and negligent misrepresentation. The plaintiff prayed for rescission of the agreement assigning the patent rights to the defendant, an injunction against further use by the defendant, imposition of a constructive trust upon the defendant, an equitable accounting by the defendant and "such further equitable relief as may be appropriate." Included among these equitable prayers was a plea "that damages be awarded to plaintiff."

The original complaint was endorsed "plaintiff demands trial by jury." Relatively early in the proceedings, the plaintiff moved for recognition of his right to a jury trial. The district judge who was then assigned to the case stated in his order of May 10, 1973 that he "would characterize this action as equitable, being basically one for rescission with damages merely incidental to the equitable claims." The complaint at that time included two additional counts involving the infringement of the patent. Concluding that validity and infringement of a patent are matters of law to be decided by a jury, the judge ordered that plaintiff's right to a jury be affirmed. Prior to the jury trial, the plaintiff abandoned the two counts pertaining to patent matters and eliminated the prayer for an injunction in the remaining counts.

A jury trial was held from December 20, 1976 through January 18, 1977. At the conclusion, the district court instructed the jury that the complaint encompassed three separate claims: breach of a confidential relation, fraudulent misrepresentations and negligent misrepresentations. The court instructed the jury as follows in regard to money damages:

> If you find in favor of the plaintiff upon either the first or second claim, then, one of the elements of the money damages to be considered by you may be the net value to the defendant of the profits and benefits derived from the use of plaintiff's invention. The award of money damages you make may equal the net profits which you find the defendant gained as a result of its merchandising of wrenches incorporating plaintiff's Quick Release invention and idea, minus any expenditures which you find the defendant has proved it incurred which it would not have incurred had it not merchandised such wrenches incorporating plaintiff's Quick Release invention and idea from the time of the contract in question to the present.

> However, if you decide in favor of the plaintiff only upon the third claim, then, one of the elements of the money damages to be considered by you may be the value of a reasonable royalty on the Quick Release wrenches sold by the defendant from the time of the contract in question to the present.

The court further instructed the jury that "as a matter of law, any damages you may award under each claim will not be cumulative, and the plaintiff will not be permitted to collect damages under more than one claim." Separate verdict forms were supplied for each of the three claims. The jury found for the plaintiff on each claim and awarded damages of $1,000,000 on each claim. It is conceded by both parties that the one million dollar judgment is the total amount awarded by the jury (see, e.g., *Brief of Plaintiff* at 5). This judgment has been satisfied and the plaintiff has collected $1,000,000.

In a post-trial motion, the plaintiff sought equitable rescission and restitution. The district court held that when the plaintiff permitted the case to go to the jury he had elected his legal remedy under Illinois law and could not later also seek equitable relief. Plaintiff appealed, seeking the right to full equitable relief over and beyond the one million dollar legal relief. The defendant cross-appealed to set aside the money judgment against it.

In *Roberts v. Sears, Roebuck and Co.*, 573 F.2d 976 (7th Cir. 1978), *cert. denied*, 439 U.S. 860, 99 S.Ct. 179, 58 L.Ed.2d 168 (1978), we affirmed the district court's judgment against defendant on all three claims in plaintiff's complaint and the court's decision not to alter plaintiff's monetary award, but reversed the court's determination that it lacked the power to award rescission and remanded to the district court for a determination of whether rescission is appropriate under the facts of this case.

Although this is a diversity case, we held that where a state procedural rule is derived from a judicial system that is fundamentally inconsistent with the federal judicial system, the state rule may give way to the federal procedural solution; and that Illinois retains

separate courts of equity and law, whereas the distinc-

[617 F.2d 463]

tion between law and equity has been abolished in the federal system. We then said:

> We conclude that the district court correctly decided not to disturb the jury's monetary award, but that the court erred in not considering whether rescission of the contract and return of plaintiff's patent were appropriate.
>
> The general rule as to when an election is necessary is that " 'a certain state of facts relied on as the basis of a certain remedy is inconsistent with, and repugnant to, another certain state of facts relied on as the basis of another remedy.' " *Prudential Oil Corp. v. Phillips Petroleum Co.*, 418 F.Supp. 254, 257 (S.D.N.Y. 1975). Here, the jury was instructed that plaintiff could receive profits for Counts I and II, fraud and breach of confidential relationship. Apparently dissatisfied with the size of the jury verdict, plaintiff sought in a post-trial motion to have the court reconsider the evidence and award relief based on essentially the same standard the jury used. To have granted plaintiff's request would have been completely unfair to Sears. It might have been better for the court to require the plaintiff to elect his remedy expressly prior to instructing the jury, but plaintiff did not object to the court's procedure, and therefore, must have been satisfied to let the jury determine the appropriate award. Having let the case go to the jury without getting the issue clarified, plaintiff should not be heard to complain about the outcome of that procedure.
>
> With regard to an election between the profits awarded by the jury and return of the patent based on rescission, however, we see no basis for invoking the election of remedies doctrine. Based on the jury instruction, plaintiff will receive one million dollars as the measure of *past* profits earned by Sears up to the time of trial. That award, however, is not incon-

> sistent with return of the patent so that plaintiff can receive the *future* benefits of the patent that Sears fraudulently acquired. There will be neither a double recovery nor a factual inconsistency between these remedies. *See Prudential Oil Corp., supra* at 257; G. Bogert, The Law of Trusts and Trustees § 946 (2d ed. 1962). Therefore, we conclude that going to the jury under a past profits instruction did not bar plaintiff from seeking rescission and thereby possibly recovering his patent. Whether rescission is appropriate, however, is an issue that should be decided in the first instance by the district court.

573 F.2d at 985-86 (emphasis in original) [footnotes omitted].

A short time after the case was docketed on remand, the defendant offered to make reassignment and delivered proposed drafts of reassignment to the plaintiff. When this offer was rejected, the defendant voluntarily prepared, executed, and tendered to the plaintiff through the district court reassignments of any and all rights in the patents obtained under and pursuant to the June 15, 1965 agreement between the plaintiff and defendant.[1]

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[1] The opinion on the first appeal states that the agreement was entered into on July 29, 1965. 573 F.2d at 979. The district court memorandum upon remand states that the plaintiff signed the agreement on June 15, 1965. 471 F.Supp. at 376, 378. The difference in dates is explained by an instruction given to the jury:

> You are instructed that, as a matter of law, the Court has determined that that agreement did not become an agreement between the parties on June 15, 1965, but did become an agreement on July 29, 1965, when, after having been signed by the defendant, it passed from the defendant back through the hands of attorney Fay and into the hands of the plaintiff. Therefore the contract was formed on July 29, 1965, and not on June 15, 1965.

For convenience of reference the agreement will be called the June 15, 1965 agreement.

Although this was the maximum additional remedy we intended to give the plaintiff, the district court on remand went far beyond that and ordered the entire case reopened for an accounting of all of defendant's "unjust enrichment" back to June 15, 1965. *Roberts v. Sears, Roebuck and Co.*, 471 F.Supp. 372, 374 (N.D. Ill. 1979). Seizing upon the word "rescission," which we used only

[617 F.2d 464]

in the context of returning the plaintiff's patent, the district court, relying upon Illinois law, construed that rescission can only mean void from its inception, which, according to that court, permits the plaintiff to have a second chance to establish past damages or profits, despite the Illinois law as to election of remedies.

II

In our prior opinion, we repeatedly referred to the "return of plaintiff's patent" and when we used the word "rescission," we used it in the context of returning the plaintiff's patent. We did not say that the plaintiff could under any theory upon remand be entitled to restitution or additional damages or profits. In fact, we expressly said that the plaintiff *did* elect his remedy as to *past* damages or profits up to the time of the jury verdict and that return of his patent might be the most effective way of insuring that the plaintiff receive the *future* benefits of the patent. We remanded the case for the purpose of determining whether as an equitable matter the plaintiff should recover his patent. In retrospect, we would have been better advised to use some other word such as cancellation, termination or forfeiture of the June 15, 1965 agreement, or reconveyance or reassignment of plaintiff's patent,[2] but at the time, "rescission" seemed to be an appropriate word to cover both the process of cancelling the agreement and returning the

[2] Actually there are two patents: United States Letter Patent No. 3,208,318 issued to plaintiff on September 28, 1965 and Letters Patent of Canada No. 757,826 issued to him on May 2, 1967.

patent.[3] In any event, we believed that the language of our opinion made it clear that the plaintiff had elected his remedy as to past damages or profits and, because that remedy continued only up to the date of the judgment, it might be equitable to return the patent to the plaintiff as of that same time to insure that he would realize any future benefits which might accrue through his ownership of the patent as of the time immediately following the entry of the judgment. We did not say nor intend that the June 15, 1965 agreement be subject to being declared void as of any time prior to the date of the entry of the judgment if the district court upon remand found such cancellation to be equitable.

In addition to what we said and intended, the law does not permit the remedy the district court attempted to award upon remand. In the earlier opinion, we accepted Illinois law as to election of remedies for past damages or profits, as had the district court immediately after the jury verdict. We parted with Illinois law only to give the plaintiff an opportunity to protect himself against future damages. The district court would now entirely ignore Illinois law as to election of remedies but would seem to apply the Illinois law of *ab initio* rescission plus complete past restitution.

It appears to be clear under general law and under Illinois law as well that a person suing for fraud or misrepresentation may seek damages for the tort of deceit at law or may waive the tort and make an election to seek restitution in quasi contract or equitable restitution. W. Prosser, Handbook of the Law of Torts §§ 94, 105 (4th ed. 1971); E. Thurston, Cases on Restitution 44-109; *Altom v. Hawes*, 63 Ill.App.3d 659, 20 Ill.Dec. 330, 380 N.E.2d 7 (1978).

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[3] It is true that rescission ordinarily means abrogation from the beginning, but Illinois recognizes the concept of partial rescission, *Keeshin v. Levin*, 31 Ill.App.3d 790, 798, 334 N.E.2d 898, 906 (1975); *Kaplan v. Keith*, 60 Ill.App.3d 804, 808, 18 Ill.Dec. 126, 128, 377 N.E.2d 279, 281 (1978), and rescission is the word often used when a patent or copyright license is terminated after partial collection of royalties. See, generally *Driver-Harris Co. v. Industrial Furnace Corp.*, 12 F.Supp. 918 (W.D.N.Y. 1935); *Nolan v. Williamson Music, Inc.*, 300 F.Supp. 1311 (S.D.N.Y. 1969).

In *Essington v. Parish*, 164 F.2d 725, 730 (7th Cir. 1947), we noted:

> Election of remedies is the act of choosing between different remedies allowed by law on the same state of facts, where the party has but one cause of action, one right infringed, one wrong to be
>
> **[671 F.2d 465]**
>
> redressed. 28 C.J.S. Election of Remedies §3. And where a person has two or more remedies for the redress of a wrong or the enforcement of a right and these remedies are based upon inconsistent theories such person is put to an election, and when he has, with full knowledge of the facts, definitely chosen to pursue one remedy he will be bound by his election, *Glezos v. Glezos*, 346 Ill. 96, 99, 178 N.E. 379. If he has voluntarily chosen and carried into effect an appropriate remedy with knowledge of the facts and his rights, he will not, in general, be allowed to resort afterward to an inconsistent remedy, which would involve a contradiction of the grounds upon which he before proceeded. 18 Am. Jur. p. 130.

The plaintiff prosecuted to judgment his claim for money damages at common law and received one million dollars for defendant's fraud and misrepresentation, representing damages up to the entry of judgment. Prosecution to judgment of one remedy with full knowledge of the facts constitutes an election under Illinois law. *Paoli v. Zipout, Inc.*, 21 Ill.App.2d 53, 57, 157 N.E.2d 79, 83 (1959).

The plaintiff asked for and insisted upon a jury trial. The district court has now acceded to his demands for further damages covering the same period of time for "disgorgement of defendant's unjust enrichment." Restitution for the disgorgement of unjust enrichment is an equitable remedy with no right to a trial by jury. *S.E.C. v. Commonwealth Chemical Securities, Inc.*, 574 F.2d 90, 94-97 (2d Cir. 1978); *S.E.C. v. Asset Management Corp.*, 456 F.Supp. 998, 999-1000 (S.D.Ind. 1978); 5 Moore's Federal Practice, ¶ 38.24[2], at 190.5 (1977). By submitting his damage claim to the jury, the plaintiff elected that remedy.

Illinois law would not only require the preclusion of restitution but would also probably bar the cancellation of the June 15, 1965 agreement and return of the patent as of the date of the entry of the judgment, which are also equitable remedies. However, in our earlier opinion, we provided for this possibility upon remand inasmuch as it does not amount to double compensation for the plaintiff. See *Faber, Coe & Gregg, Inc. v. First National Bank of Chicago*, 107 Ill.App.2d 204, 211, 246 N.E.2d 96, 99-100 (1969); *National Lock Co. v. Hogland*, 101 F.2d 576, 587 (7th Cir. 1938).

III

Inasmuch as the defendant has voluntarily delivered reassignments of the patent rights as envisioned in our earlier opinion and mandate, the only problem remaining is the effective date of such reassignments. The district court docket indicates that the judgment was entered on January 20, 1977. We therefore vacate the decree or judgment entered on May 31, 1979 and the memorandum of the same date which appears at 471 F.Supp. 372 (N.D.Ill. 1979), as being contrary to our earlier opinion and mandate. We remand the case for the purpose of entering a final judgment when the defendant delivers to the court for the plaintiff two assignments properly executed on behalf of the defendant in the form of those appearing in the abstract at pages 716-19, with the following modifications. After the word "assigns" at the end of the second line of the fourth paragraph on page 716, and after the word "assigns" at the beginning of the third line of the fourth paragraph on page 718, add the words "effective as of January 20, 1977."

In order to avoid if possible any future misunderstanding, the effect of these two assignments will be that the defendant owned all of the patent rights from June 15, 1965 to January 20, 1977, and the plaintiff shall be considered the owner from January 20, 1977 on. The plaintiff will not be entitled to sue for any infringement occurring prior to January 20, 1977. As we said before, "[a]t that point in time, the patent's validity can be tested either in an infringement suit or after plaintiff

enters into a licensing agreement." 573 F.2d at 982. The defendant was prevented in the first trial from attacking the validity of the patent, but may do so if sued for post-January 20, 1977 infringement by the plaintiff.

The judgment on remand is vacated and the case is remanded for further proceedings consistent with this opinion.

[617 F.2d 466]

SWYGERT, Circuit Judge, dissenting.

In *Roberts v. Sears, Roebuck & Co.*, 573 F.2d 976, 985 (7th Cir. 1978), this court held that the district court had "correctly decided not to disturb the jury's monetary award." We characterized that award as the "measure of *past* profits earned by Sears up to the time of trial." *Id.* (emphasis in original). That holding is the law of the case.

We also held in our earlier opinion that the jury's award of past profits was "not inconsistent with return of the patent so that plaintiff [could] receive the *future* benefits of the patent that Sears fraudulently acquired." *Id.* (emphasis in original). The combination of a damage remedy for past profits and an equitable remedy as to future benefits was permissible, we reasoned, because there would be neither a double recovery nor a factual inconsistency. Therefore, we remanded the case so that the trial judge could decide "whether rescission is appropriate under the facts of this case." 573 F.2d at 986.

The trial judge took us at our word and proceeded to conduct a trial in equity to determine the question of whether the plaintiff was entitled to the rescission of his contract with Sears. He found that

> Sears committed fraud on Roberts in the way it acquired all of his rights to the quick release device he invented; that Sears breached the confidential relation that existed between Roberts and the company, one that arose out of a pre-existing relationship of employee and employer; and that Sears, in its negotiation for the quick release device committed negligent misrepresentations concerning

> the company's knowledge of the invention's value, its saleability, and its public acceptance.

Roberts v. Sears, Roebuck and Co., 471 F. Supp. 372, 378 (N.D. Ill. 1979). The judge then reviewed the law of Illinois and determined that

> the elements of fraud which would justify rescission of a contract by a suit in equity are the same as those which would sustain an award of damages in an action at law. . . . [W]here the subject matter of a contract is acquired through fraud, . . . through the breach of a confidential relation, . . . or through misrepresentation, . . . rescission, as a remedy, is available through an action in equity. When this remedy is sought, it is to declare an agreement void from its inception.

Id. at 378-79 (citations omitted). Following this recitation of the law of Illinois, the trial judge concluded:

> The mandate of the court of appeals directed this court to consider whether here, on the facts shown in the record, rescission is appropriate. After reviewing the pleadings, the evidence, the prior rulings, and applying the controlling principles of equity, it is this court's judgment that Roberts is entitled to a decree rescinding his June 15, 1965 contract with Sears. Therefore, a decree of rescission will be entered.

Id. at 379-80. Finally, the trial judge determined that under Illinois law, "Rescission is the termination of a contract with restitution," and "When it is sought and granted for fraud, an Illinois court of equity usually grants the defrauded party the full remedy to which, under the circumstances he may be entitled." *Id.* at 380.

Although I agree with the majority that an accounting for the period from the date of the contract to the date of the judgment is prohibited by our earlier decision, I do not agree that the accounting ordered for the period from January 1, 1977 to the date of the accounting was erroneous. In my opinion, Judge Leighton was eminently correct in ordering an accounting for the latter period. Not only was he following the law of the case as

pronounced by this court in our first opinion and the mandate that issued, but he came to a result which the facts, the law of Illinois, and the principles of equity required.

We held that the jury award for past profits did not bar an equitable remedy for future benefits. *Roberts v. Sears, Roebuck & Co., supra.* The majority concedes that

[617 F.2d 467]

the damages remedy continued only up to the date of the judgment, after which time the equitable remedy of rescission attached. By denying the plaintiff an accounting for the period after which his damages were assessed but before he was in a position to benefit from the return of his patents, the majority has, with no justification, left a substantial gap in the plaintiff's rightful recovery.

According to the majority, the contract was rescinded or cancelled as of January 1, 1977. It is not disputed that the remedy of rescission generally carries with it an accounting for profits unjustly earned. Yet, the majority holds that in order for the plaintiff to recover the defendant's profits, he must start a new action at law for patent infringement. Apparently the majority is concerned lest the plaintiff have a second chance to recover in equity what he has already received at law. But the jury award for damages continued only up to the date of the judgment. Here we are concerned exclusively with profits made after that date. Because we have held that the contract was void after January 1, 1977, profits earned by the defendant after that date must be disgorged to prevent unjust enrichment. Because the jury was never asked to award damages for this period, there is no possible double recovery or factual inconsistency in this result. I would give the plaintiff the full equitable relief to which he is entitled upon the finding that rescission is appropriate.

Although we have held that it was permissible for the plaintiff to seek remedies at law for past damages and in equity for future damages, we stated that it was incorrect for the judge to permit past damages to be assessed both at law and in equity for the same time

frame. Yet the majority today would require that future benefits be decided partly in equity—the rescission of the contract—and partly at law—a patent infringement action to recover profits. My understanding is that an equitable accounting is designed to prevent this peculiar split of actions while accomplishing the same result.

Finally, I am impelled to record my distress of the majority's assertion that this court did not actually mean "rescission" in its traditional sense when it told the district court to consider whether "rescission is appropriate under the facts of this case." That assertion is unsettling to say the least and unfair to the district judge. But it has greater implications because of the unfairness to the plaintiff.

"Big" business ethics have of late come under heightened scrutiny and criticism. That scrutiny and criticism may appear to be justified if Sears' monumental fraud visited on the plaintiff is any measurement. Evidence before the jury indicated that Sears' incremental profits on the patented wrench had been $44,032,082 from the date it fraudulently acquired the patents up to December 31, 1976. The jury awarded the plaintiff one million dollars damages for that period. Beyond December 31, 1976, according to the directions of the court in the present appeal, the plaintiff will have back his patents with the opportunity to sue Sears for infringement, subject, however, to Sears' defense of invalidity.* For me this result not only condones the proven unethical conduct of Sears but it is manifestly unjust to the plaintiff.

I would reverse in part and affirm in part.

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* At oral argument, counsel for Sears categorically asserted that the patents were invalid—despite the evidentiary fact that the quick release wrenches which Sears has sold and is selling all bear the patent number. Such a cavalier attitude reflects cynicism on the part of Sears in its business relations with the public.

IV

UNITED STATES COURT OF APPEALS
For the Seventh Circuit

June 17, 1980.

Before LUTHER M. SWYGERT, ROBERT A. SPRECHER and WILLIAM J. BAUER, *Circuit Judges.*

PETER M. ROBERTS, *Plaintiff-Appellee,*	) Appeal from the United States District Court for the Northern District of Illinois, Eastern Division.
No. 79-1616 *v.*	)
SEARS, ROEBUCK AND CO., a corporation, *Defendant-Appellant.*	) No. 69 C 2573 George N. Leighton, *Judge.*

ORDER

On consideration of the petition for rehearing and suggestion for rehearing *in banc* filed in the above-entitled cause by plaintiff-appellee, no judge in active service has requested a vote thereon, and a majority of the judges on the original panel have voted to deny a rehearing.* Accordingly,

IT IS ORDERED that the aforesaid petition for rehearing be, and the same is hereby, DENIED.

Judge Wilbur F. Pell did not participate in the consideration of the petition for rehearing *in banc.*

* Judge Swygert voted to grant rehearing.

V

EXCERPTS FROM INSTRUCTION CONFERENCE

[2980]

THE COURT: Let me read this. I will give it to you and you can look at it, Mr. Davidson.

Let me ask you this: Is this a suit for recision?

MR. K. DAVIDSON: It is, your Honor.

MR. J. DAVIDSON: Your Honor, in those circumstances I think restitutionary remedies are probably the only ones available to the plaintiff.

[2981]

MR. KASDIN: The law is rather clear, your Honor, where you have an express agreement, the Plaintiff may sue for damages for any fraud or any breach of the agreement. This is a valid enforcible agreement. The Plaintiff can enforce the agreement if they want. In fact, the agreement has been enforced.

MR. J. DAVIDSON: The agreement is not executory, Mr. Kasdin.

MR. KASDIN: I understand.

THE COURT: What was that motion that you made to strike from these counts the prayer for equitable or—what was it, injunctive relief that was stricken?

MR. J. DAVIDSON: Yes, your Honor. We are still seeking other equitable relief.

THE COURT: And the other equitable relief is what?

MR J. DAVIDSON: It would include an assignment of the patents that were issued on the Plaintiff's invention.

MR. KASDIN: Our position, your Honor, is that if the Plaintiff is allowed to rescind and if he gets the patent back, he then has a lawsuit for infringement against the Defendant for all of these years that the Defendant has been manufacturing this wrench under his patent.

MR. J. DAVIDSON: The Waterman case and other U.S. Supreme Court cases are clear, Mr. Kasdin, you may not sue for infringement during the period when you did not

[2982]

have title or a grant of title to the patent.

MR. KASDIN: I don't think that is the law.

MR. J. DAVIDSON: No question about it.

THE COURT: If you are right, then the end of this litigation is not in sight, that is what it amounts to.

MR. KASDIN: Well, if the Plaintiff is allowed to rescind, he will have his patent back and he will be put in status quo. Then he has an action against the Defendant for its infringement for his patent.

THE COURT: This jury is only going to give an advisory verdict. What are we sitting here for four weeks for with a jury if that is the case, because then if that is what this—

MR. KASDIN: I don't know, of course, what was going through Judge—

THE COURT: What?

MR. KASDIN: I don't know, of course, what was going through Judge Marshall's and Judge McGarr's minds when they had ruled previously, but perhaps that was one of the bases for their ruling that if the patent was invalid, that would be the end of the lawsuit.

THE COURT: I don't agree.

MR. KASDIN: I understand that.

THE COURT: I don't agree with that.

MR. KASDIN: I understand.

THE COURT: I doubt very much that Judge Marshall

[2983]

and Judge McGarr—after all, these were pre-trial motions that were being made. I have serious doubt that if they knew about this case as I know it, they would make any such ruling, but we will never be able to find that out. I wouldn't even belabor the point to ask them, as often as I see them. I wouldn't even ask them when I see them because I would have to explain so much to them that I wouldn't even bother to ask them.

But you see the reason why in my mind the question of the validity of the patent was a real one and I admitted evidence about it was because it was the Defendant's theory that what it bought was valueless, and I think the Defendant in this case has a right to show this jury that, whatever evidence is available to the Defen-

dant, whatever it happens to be, I don't know. You heard what the testimony was. We heard what the Defendant had to offer. But I never was satisfied that if it could be shown that this patent were invalid, a patent out of which Sears has sold millions of dollars of wrenches—it is hard for me to understand how it could defeat the Plaintiff's claim that he was led into giving up this invention by the circumstances he describes in this complaint.

Now let me look at Page 12 of the second amended complaint, the prayer for relief. I think it is obvious that

[2984]

by asking for the jury trial, the Plaintiff has elected to sue for damages. It is obvious. That is the only thing this jury can decide. The jury is not equipped to decide whether to render a verdict of rescision, it cannot render a verdict of accounting. The only thing the jury can do is decide whether the Plaintiff was damaged by the Defendant in the manner alleged in the complaint, and if it is shown by the evidence to the extent that the evidence shows this fact, that is the only thing the jury can decide. It is a question of damages.

MR. KASDIN: Your Honor, you just articulated an instruction that I think would be proper rather than Instruction 9 that is now before you.

THE COURT: It may well be, you see, but it was a jury trial.

I think that this objection that you are making now, Mr. Kasdin, should have been articulated the day we started to select the jury. You should have told me that you objected to the jury being impaneled on the theory that the jury couldn't return, the jury can't return a verdict saying the Plaintiff is entitled to an accounting, that that is an equitable decision that is left to the equity jurisdiction of the Court. They can't say that there should be a rescision. There is no such verdict as that.

[2985]

The jury decides questions of law as a matter of damages.

MR. J. DAVIDSON: May I state for the Plaintiff, your Honor, I think when we came in at the outset of this

case the Plaintiff said here were some issues in the case that would have to be decided by the jury and some issues to be decided by the Court.

THE COURT: Like what? Tell me one. Tell me those that the jury can decide. Tell me which ones.

[2986]

THE COURT: Tell me which ones.

MR. J. DAVIDSON: All right, I will. Let me start with the Court. At first I think the question that was cited on the patents, for example, that only the Court can do it, obviously. In the Dairy Queen case and I think in companion cases, I think the jury can decide any fact question which is presented which is reasonably within their competence. I think that would include, your Honor, not only ordinary damages but would allow the jury, if it was within their competence, if the evidence were not so complicated that they couldn't understand it, would allow the jury to measure damages by way of profits if that was the type of recovery to which the plaintiff was entitled.

THE COURT: All right. Now let me tell you gentlemen something else. I have the intention, when this jury returns a verdict, and whichever way it returns a verdict, I am going to listen to post-trial motions under the Rules and that is the end of it, in this case, as far as this Court is concerned.

I am not going to entertain any motions. If you have any intention of asking me to make any other findings, reach any other conclusions in this case, I just want to tell you right this moment that I have no intention of doing so. When I get through this verdict in this case, it is

[2987]

going to be the end of this litigation, until you get a judgment somewhere in some higher court directing me to do otherwise.

I just want to tell you right this moment. Now I begin to see the possibility that what you gentlemen have in mind is to get a verdict and then come in here and try to get some implementary equitable order from this court. I just want to tell you this case has been here since 1969, you have had four weeks of trial and this is going to be

the end of this case until I get a mandate either from the Court of Appeals or the Supreme Court of the United States.

MR. J. DAVIDSON: The plaintiff never contemplated—

THE COURT: All right. Let us understand each other now. The other thing, I will give you gentlemen a reasonable period of time for post-trial motions and when that period of time is over, you are through.

MR. J. DAVIDSON: I was just going to say, your Honor—

THE COURT: I don't want to repeat what Judge Perry said recently in another case, every litigant has a right to his day in court; he doesn't have a right to a year or several months and this case has had its day in court when we get through with that verdict of this jury.

MR. J. DAVIDSON: We would all agree with that.

THE COURT: All right. But I construe the pleadings as meaning simply that this case is being submitted to

[2988]

this jury to ascertain damages to the extent that the plaintiff can prove a claim for damages and which the evidence shows he suffered.

[2989]

MR. J. DAVIDSON: I think we were on that when we were on No. 9 here.

THE COURT: All right, we are on No. 9.

MR. KASDIN: Yes, your Honor. The Defendant objects to the instruction, apart from the reasons that you just mentioned, this instruction is tantamount to a direct verdict, that the jury has to return an award for the entire incremental profits realized by Sears during the period it was selling the wrench. It does not ask the jury to determine or ascertain what, if any damages the Plaintiff has sustained.

THE COURT: Let me look at it and see.

MR. KASDIN: What it is really asking for is $40 million.

THE COURT: All right. This instruction will be refused. No. 9 will be refused. This one is refused.

Let us go to No. 10. And let me say something to guide counsel. When I refuse this instruction I want you,

if you wish, if you have another one you want to tender in its place within a reasonable time after I finish, you may do so, but this one is refused.

Let us go to No. 10.

MR. KASDIN: The Defendant will object to No. 10.

MR. DAVIDSON: Before we go to 10, your Honor, may I ask respectfully, your Honor, in order to tender another one and not waste the Court's time—

THE COURT: In its place?

[2990]

MR. DAVIDSON: —in its place. If the Court would enlighten us somewhat as to the reason—

THE COURT: The reason? Let me tell you why. Look, this instruction at the end of its first paragraph tells the Jury this—the jury is not asked, this jury has no authority to rule on whether or not the contract must be set aside. This jury has no competence to decide a question like this. That is the first reason.

The second reason has been stated by Mr. Kasdin. This amounts to telling the jury that if it finds in favor of the Plaintiff, the measure of damages is the profit Sears made, and the measure of damages isn't that. The measure of damages to the Plaintiff is what he lost, what he lost, not what Sears made out of the invention. This instruction seeks to accomplish transferring from Sears the profits Sears made and give it to the Plaintiff, as if it belongs to the Plaintiff. It doesn't necessarily follow.

[2991]

MR. J. DAVIDSON: Your Honor, may we suggest—

THE COURT: Yes.

MR. J. DAVIDSON: Under Illinois law that the plaintiff is entitled to an accounting, to restitution of the unjust enrichment including profits.

THE COURT: By way of damages? Show me a case, just show me a case. When we get through this series, you show me a case that says that.

MR. J. DAVIDSON: The Dairy Queen case itself presented this issue, your Honor.

THE COURT: You call my attention to the cases and I will send my law clerk to get it and I will look at it. Let us go to No. 10.

MR. KASDIN: The defendant objects to instruction No. 10 for a number of reasons.

THE COURT: All right.

MR. KASDIN: First of all, the mere relationship of employer-employee does not create a confidential relationship.

THE COURT: All right.

MR. KASDIN: In addition to that, the fact that Sears had greater bargaining power than the plaintiff certainly does not create a confidential relationship.

THE COURT: Let me read this now. Now we come to the question which I asked Mr. Davidson. By the way, this is the mere fact. The only fact that exists here that

[2992]

changes the relationship between this plaintiff and Sears from that of an ordinary customer who goes to a Sears store is the fact that the plaintiff was working for Sears at its store in Gardner, Massachusetts. Am I right about that?

MR. J. DAVIDSON: No, I don't believe so.

THE COURT: What else is there? Tell me, what else is there?

MR. J. DAVIDSON: First of all there is the circumstances under which it was submitted where they led him to believe that it would be fairly and honestly evaluated and tested by them, which of course led him later on to believe that what they were doing was the results of those tests.

THE COURT: All right. In other words, he relied on what Mr. Lemieux said and because he worked for them he had a lot of confidence in them and so forth and so on?

MR. J. DAVIDSON: Their knowledge of his minority, the disparity of the bargaining power between the parties—

THE COURT: All right.

MR. J. DAVIDSON: The course of dealings. If your Honor has a moment to read through this—

THE COURT: I am going to read through it but I wanted to understand what was the basis for the confidential relationship.

MR. J. DAVIDSON: There are numerous facts I could give you.

[2993]

THE COURT: All right. Let me look at it in the light of what you said. In the meantime, you find me a case dealing with the confidential relationship that arises out of an employer-employee relationship and also that the employee does something, like invent something. By the way, this isn't the first time in history where this has happened, is it?

MR. J. DAVIDSON: There are numerous cases when an invention is submitted—

THE COURT: I know. Find me a case like this. I know. Find me one so I can look at it, that's all.

[2994]

MR. KASDIN: Your Honor, I have two cases that say the opposite.

THE COURT: All right.

MR. KASDIN: If you are interested.

THE COURT: All right. That's all right.

MR. KASDIN: One is in Massachusetts and one—

THE COURT: Let me see it.

MR. KASDIN: Do you want me to read it?

THE COURT: Let me see.

MR. KASDIN: It would be the Spronger and the Cardulo case, I believe.

THE COURT: Let me look at it.

MR. J. DAVIDSON: Here is one case from this circuit, Allan Qualley v. Shelmar.

THE COURT: Wait a minute. Let me look at it. Will you give these two cases to Mr.—

Have you called this Allan Qualley case to Mr. Kasdin's attention?

MR. J. DAVIDSON: Many times, your Honor.

MR. KASDIN: I don't recall in this issue. I know the Allan Qualley case generally. That is the appropriation of some blueprints or something?

THE COURT: No.

MR. KASDIN: Or am I thinking of another case?

THE COURT: I don't think it was only on blueprints.

[2995]

MR. KASDIN: I thought it was a misappropriation case where there was a theft of some blueprints and specifications from an employee.

THE COURT: There were express action acts of wrongdoing in that case. But the question that I wanted to—

MR. J. DAVIDSON: I have also cited Booth v. Stutz which also presents the issue for an accounting of this kind of wrongdoing, where the Seventh Circuit Court of Appeals affirmed the accounting for profits.

THE COURT: I have no doubt about it. I have no doubt but this is a case in which the trial judge heard the case in equity.

[2996]

MR. J. DAVIDSON: If the question is just whether the jury can hear it, then I think the Dairy Queen case is of great importance because in that case the plaintiff sought an accounting.

THE COURT: The jury can hear what?

MR. J. DAVIDSON: I beg your pardon?

THE COURT: The jury can hear what?

MR. J. DAVIDSON: The jury can decide the accounting question, in other words, whether the jury can decide what profits as a part of awarding on unjust enrichment relief. The Dairy Queen case itself was a case in which the plaintiff had sought an accounting and the defendant claimed they had a constitutional right to a jury trial on this money claim and the U.S. Supreme Court said that it did. It is the leading case in the United States. Beacon Theaters and Dairy Queen are the two central cases on jury questions under Federal Rules.

THE COURT: What did the Court say the defendant was entitled to go to the jury about?

MR. J. DAVIDSON: It said it would be a rare case in which the accounts are so complicated as would justify taking the case from the jury. It is 369 U.S. 478.

MR. KASDIN: The issue in the Dairy Queen case, your Honor, was whether the plaintiff or the defendant, I forget which one, was entitled to a jury trial.

[2997]

MR. J. DAVIDSON: On the issue of accounting, Mr. Kasdin.

MR. KASDIN: The issue in the case was whether this was a purely equitable proceeding decided by the judge or whether it was a mixed question of equitable and legal which would permit the jury to decide. It didn't have anything to do with, per se, the recovery of damages or unjust enrichments as opposed to damages.

MR. J. DAVIDSON: It is a separate issue. That is not what we were discussing.

MR. K. DAVIDSON: We were thinking it might add a new dimension to it, with the Court's permission.

THE COURT: Go ahead.

MR. K. DAVIDSON: I believe these cases indicate that under federal practice maybe more so than the state practice, the distinction between law and equity has greatly faded, particularly with respect to questions of fact. The courts have indicated very strongly that any question of fact should be left to the jury. I don't for a moment think the Court is foreclosed from exercising its equitable jurisdiction to require an accounting in cases where it believes the complexity of the issue is so great the jury would have difficulty in dealing with it. I think the cases indicate that that is the only time a question—

THE COURT: It wasn't until a few moments ago that I

[2998]

began to understand that this is not the end of this litigation.

MR J. DAVIDSON: I think it would be, your Honor. We would be asking the jury in our final argument also we would be addressing the question of what profits were shown here that would be solely attributable to the inclusion, the addition of this tool, and the defendant has had the opportunity to show whatever should be offset about it. This is not a complicated matter.

THE COURT: All right. Let me read, in view of what you are showing me by these cases, let me look at this proposed instruction.

What is the source of this instruction 10, the cases you have shown me, the various cases you have shown me?

MR. K. DAVIDSON: We have a number, your Honor, in which it is indicated, an Illinois case and the restatement of restitution.

THE COURT: This instruction was drafted by counsel, was it?

MR. K. DAVIDSON: That is correct.

THE COURT: All right. Let me look at it.

MR. K. DAVIDSON: I did not mean avoiding answering that.

THE COURT: All right.

[2999]

MR. K. DAVIDSON: I will take the credit or the blame for it.

THE COURT: The objection to this instruction will be overruled except to this extent:

[3000]

In the second main paragraph of page 1, the paragraph begins, "A variety of specific factual circumstances may give rise—" The words at the end of that paragraph, "or because one party has greater economic power than the other party," those words will be stricken and with this modification the instruction will be given.

In other words, it will read as follows:

> "—or because of the knowledge and experience of the other party—"

The words "one party has greater economic power and the other party is unable to protect his interest and cope with the superior economic power," will be stricken for the reason that in this case it would be prejudicial.

Otherwise it is an instruction that will tell the jury how in the variety of circumstances a confidential relation may arise and it is for the jury to find whether there is a confidential relation.

This instruction over the objections of the defendant will be given as modified.

MR. KASDIN: May I state the remaining bases for my objection for the record, please.

THE COURT: All right.

MR. KASDIN: In addition the defendant submits that this instruction insofar as it refers to the competence or independent advice of Attorney Fay is certain irrelevant.

[3001]

THE COURT: I am going to leave that there.

MR. KASDIN: It is certainly irrelevant to this issue. The defendant also submits that the instruction is argumentative and argues evidentiary facts rather than propositions of law. For that reason also the defendant submits it is prejudicial.

THE COURT: Overruled. That instruction will be given.

MR. J. DAVIDSON: So the Court's rulings are understandable, I just wanted to explain to the Court why we put that language in about coping, because very often the form that overreaching of a confidential relationship will take will be to remove the other party's independence without his even realizing.

THE COURT: I know that, but—I realize that but in that case I think in my judgment it is best to leave it.

MR. J. DAVIDSON: I think you are right.

THE COURT: You are tendering drafted instructions, they are not form instructions.

Let's look at 11. How about No. 11? What is the authority for No. 11.

You left out a close parenthesis, or close quotes, rather, "When I refer to unfair persuasion—" You mean to close quotes at the end of "persuasion"?

[3002]

MR. J. DAVIDSON: That is correct, your Honor.

THE COURT: Let's look at it now.

This instruction will be refused, and I will state the reason why. This is an appeal to the jury. The last sentence is "The lack of sophistication or the dependence of the person persuaded is a strong circumstance tending to show that the persuasion may have been unfair."

No, this instruction will not be given. You can redraft it if you want to.

* * * * *

[3194]

THE COURT: . . . But this one, I think taking 9-A, it should be revised to read as follows:

> "If you find in favor of the plaintiff on either the first or second claim, then, one of the elements of the money damages to be considered by you may be

[3195]

> the net value to the defendant, the profits or benefits, if derived from the use of Plaintiff's invention and idea. The award of money damages that you may make after considering such elements may equal the net profits which you find the defendant gained as a result of its merchandizing of wrenches incorporating the plaintiff's quick release invention or idea minus any expenditures which you find the defendant proved it has incurred which it would not have incurred had it not merchandised such invention incorporating plaintiff's quick release invention and idea from the time of the contract in question to the present."

Now let's see. This is what I should get, and with such an instruction, I will listen to Mr. Kasdin's objection to it if he has any. But it is an element to be considered by the jury in arriving at the award of money damages as I have been able to deduce from the cases called to my attention.

[3196]

You see these cases derive from the rule which I am reminded of. If I were sitting in the equity in this case, I would hear all of the evidence, decide whether or not the contract should be rescinded, decide whether there should be an accounting, or I could also decide to award damages. And the element of damage or the measure of damage could be the benefit or net profit the Defendant had in order, as the Court's often say, to compel a dis-

gorging from the Defendant of the benefits and profits he derived or it derived as a result of the wrong about which complaint is made. That is what these cases say.

MR. J. DAVIDSON: I think we would be happy to tender that as modified, if I might just read it for the record to make sure we have it correct.

> "If you find in favor of the Plaintiff on either the first or second claim, then, one of the elements of the money damages to be considered by you may be the net value to the Defendant, the profits or benefits, it derived from the use of Plaintiff's invention and idea. The award of money damages you may make may equal the net profits—" —then continuing on.

THE COURT: That leaves it to the jury to decide.

MR. J. DAVIDSON: We would be happy to modify it.

MR. KASDIN: The Defendant has some objection to that instruction as modified, your Honor. It suggests to

[3197]

the jury that the award may equal the net value of—the net profits, but it does not suggest to the jury that the jury may find that it should not equal that.

THE COURT: I assume when that one is tendered—I would like to see the instruction on damages that you intend to propose and I will balance it as between the two.

* * * * *

[3266]

MR. J. DAVIDSON: . . . The damage instruction redrafted as per the Court's suggestion this morning. I notice, I just want to say for the record it was our understanding the court had earlier refused an instruction asking, telling the jury they had to award profits.

* * * * *

[3267]

THE COURT: Now, 9-B. "If you find in favor of Plaintiff on either the first or second claims, then one of the elements of the money damages to be considered by you may be the net value to the Defendant"—

Did you have a proposed instruction on damages, Mr. Kasdin?

MR. KASDIN: No, your Honor, the Defendant does not.

THE COURT: All right. What is the Defendant's position with regard to 9-B?

MR. KASDIN: Your Honor, may I have just one minute to review it?

THE COURT: Sure.

MR. KASDIN: The Defendant objects—is that 9-B?

MR. J. DAVIDSON: Yes.

MR. KASDIN: Defendant objects to Plaintiff's Instruction 9-B because the instruction on several occasions suggests to the jury that they may award incremental profits which would be all of the profits that the evidence discloses that Sears obtained for the purchase of an invalid patent.

In addition to that, the instruction repeatedly refers to the fact or refers that the jury may award an amount of money equal to the net profits and that is mentioned on several occasions in this instruction.

And the instruction implies that the jury may award a

[3268]

verdict of $40 million for the purchase of an invalid patent by the Defendant. That instruction is objected to for those reasons.

THE COURT: This instruction will be given over the objection as Instruction 9-B.

Did I receive a copy of this?

MR. J. DAVIDSON: 9-B, your Honor?

THE COURT: Yes.

MR. J. DAVIDSON: I handed, I think, a couple to Mr. Anderson but I think I have some more.

THE COURT: All right, I have one.

[3269]

MR. J. DAVIDSON: I will just say for the record, your Honor, this is being submitted because of the Court's ruling that the jury should not be instructed that they had to bring in the profits.

* * * * *

VI

[118]

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

PETER M. ROBERTS, *Plaintiff,*	)	
-vs-	)	No. 69 C 2573
SEARS, ROEBUCK AND CO., a corporation, *Defendant.*	)	

PLAINTIFF'S POST TRIAL MOTION

Now comes the plaintiff, PETER M. ROBERTS, by LOUIS G. DAVIDSON for LOUIS G. DAVIDSON & ASSOCIATES, LTD., his attorney, in accord with the requests for relief contained in the Second Amended Complaint, and, for his post trial motion for complementary relief in aid of the verdicts returned by the jury and the findings of fact inherent therein and of such judgment as has heretofore been entered thereon, plaintiff does not ask for a new trial, but plaintiff does ask for the following relief:

1. For entry of an order declaring that the Memorandum of Agreement between the plaintiff and the defendant and all documents executed pursuant thereto be rescinded forthwith for the reason that as a matter of law any agreements or conveyances obtained by the defendant as a result of a breach of a confidential relationship or fraud or misrepresentation by the defendant are null and void.

2. For entry of an order reconveying or directing the defendant and its officers and managing agents to reconvey and reassign to the plaintiff instanter all right, title and interest of the defendant in plaintiff's Quick Release invention and idea, in United States Letters Pa-

tent No. 3,208,318 and in Canadian Letters Patent No. 757,826, for the reasons that as a matter of law such reconveyance or reassignment is a proper, necessary and fundamental aspect of the relief to which plaintiff is entitled since plaintiff sought and has proved the bases for rescission referred to in the preceding paragraph and since the trier of the facts specifically found such bases to exist.

3. For entry of an order restraining the defendant instanter from acting or omitting to act in any way which would impair or depreciate the value of United States Letters Patent No. 3,208,318 and/or Canadian Letters Patent No. 757,826, from this date to the time said reconveyance or reassignment is complete or at any time prior to the time plaintiff's rights in and to said patents have been finally and completely determined.

4. For entry of an order conveying to plaintiff or directing the defendant to convey or assign to the plaintiff instanter, under such terms as the Court may require, any and all interests the defendant has acquired or has agreed or contracted to acquire in any and all patents, other than those mentioned above relating to quick release devices for ratchet drivers, which came to the defendant's attention in whole or in part as a result of the disclosure to the defendant of plaintiff's Quick Release invention or idea, or as a result of the acquisition by the defendant of plaintiff's Quick Release invention or idea, or as a result of the merchandising by defendant of ratchet drivers incorporating plaintiff's Quick Release invention or idea, including in said order an injunction against any acts or omissions by defendant which would impair or depreciate the value of said other patents from this date to the time said conveyance or assignment to the plaintiff is complete, or at any time prior to the time plaintiff's rights in and to said other patents have been finally and completely determined.

5. For entry of an order of judgment against the defendant under the plaintiff's third claim in the amount the undisputed evidence showed was the minimum amount of a reasonable royalty for defendant's

use of the plaintiff's Quick Release invention to date (i.e., $2,200,000) for the reason that as a matter of law plaintiff is entitled, in connection with rescission based on defendant's negligent misrepresentations to the plaintiff to restitution in the amount of a reasonable royalty for the defendant's use of the plaintiff's Quick Release invention and because under the law it was and is the obligation of the defendant to make restitution to the plaintiff of a sum equal to a reasonable royalty if the jury found for the plaintiff on the plaintiff's third claim.

6. For entry of an order of judgment against the defendant under the plaintiff's second claim in the amount of profits the undisputed evidence shows defendant obtained (i.e., $44,000,000) as a result of either its breach of a confidential relationship which existed between the plaintiff and defendant or by reason of defendant's fraudulent acquisition of the plaintiff's Quick Release invention, or of both, for the reason that:

(a) as a matter of law the defendant may not profit from either a breach of a confidential relationship or fraudulent conduct and the defendant must therefore account to the plaintiff for any benefits obtained by the defendant by reason of the defendant's breach of said confidential relationship or fraud;

(b) as a matter of law, in connection with rescission for fraud and/or breach of confidence, the defendant stands as the constructive trustee for plaintiff of said profits; and

(c) it is evident from the verdict that the jury did not in fact grant restitution and award said profits.

As an alternative to entry of an order designating a specific dollar amount for the said profits, plaintiff moves for entry of an order directing that restitution of the profits must be made to the plaintiff by the defendant and that the determination from the record of the specific dollar amount of such profits be made forthwith by a special master appointed by this Court.

7. For entry of an order:

(a) vacating any and all orders which entered Summary Judgment in favor of the defendant and against the plaintiff on Count I of plaintiff's Second Amended Complaint and/or which dismissed Count I of plaintiff's Second Amended Complaint;

(b) reinstating Count I of plaintiff's Second Amended Complaint; and

(c) entering judgment in favor of the plaintiff on Count I of plaintiff's Second Amended Complaint, for the reason that the undisputed evidence shows that the plaintiff was a minor when he entered into the subject Memorandum of Agreement and that after the plaintiff attained majority, he was in the military service of the United States and was thereby protected by the provisions of the Soldiers' and Sailors' Civil Relief Act, 50 App. U.S.C. §§ 501, *et seq.*, and entitled to the relief prayed for in said Count I.

For the foregoing reasons, plaintiff respectfully requests that the court enter each of the aforementioned orders in accord with the relief sought in the Second Amended Complaint and by reason of the verdicts returned by the jury at the trial of the above matter pursuant to the Second Amended Complaint and by reason of the factual findings the jury necessarily made in rendering its said verdicts.

/s/ LOUIS G. DAVIDSON

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[Proof of Service omitted in printing.]

No. 80-337

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1980

PETER M. ROBERTS,

Petitioner,

vs.

SEARS, ROEBUCK AND CO., a corporation,

Respondent.

RESPONSE TO PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT

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RESPONSE TO PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT

INTRODUCTION

Plaintiff's latest Petition for a Writ of Certiorari (herein "petition") is merely another in his seemingly endless efforts to have the courts add to a $1,000,000 jury verdict in his favor, a verdict which was paid in full in accordance with petitioner's demand. Although petitioner now speaks of purported "Constitutional violations" and "conflicts" created by the Seventh Circuit's most recent opinion, his arguments still amount to no more than a claim that a jury instruction which he himself tendered, and from which he did not appeal, was improper. He

also claims that the jury verdict should be judicially increased because he is not satisfied with its amount. But, as respondent will show, these very contentions have previously and properly been rejected by two panels of the Seventh Circuit, by that court *in banc* and by this Court as well.[1] Respondent respectfully submits that petitioner's position is no more tenable now than it was when it was previously rejected. His petition should be denied.

COUNTERSTATEMENT OF THE CASE

Petitioner states that in order to properly evaluate his claims, "it is necessary" that this Court have the full factual history of this litigation (App. 2). However, in truth, petitioner has ignored most of the actual facts. Accordingly, the following brief counterstatement of facts is submitted.

Petitioner would have this Court believe that the trial jury did not award and that he never had an opportunity to receive respondent's profits. But this Court should be aware that petitioner, pursuant to his demand, has already received a jury award of respondent's profits. What he seeks now is another "bite at the same apple" simply because he is not happy with the size of the $1,000,000 verdict.

The trial court gave an instruction dealing with monetary recovery which petitioner had tendered (App. 62a-63a). Based upon that instruction, petitioner then argued to the jury that it should award him respondent's profits:

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[1] This court denied petitioner's "conditional" Petition For Certiorari. 439 U.S. 860 (1978).

[2] The abbreviations used in this Response have the following meanings: "App." refers to the Appendix filed by petitioner along with this petition, "SA" refers to the Appendix filed by the parties on the second appeal to the Seventh Circuit, and "T" refers to the trial transcript.

> Mr. L. Davidson [Petitioner's counsel]: Now about this other figure, *out of those incremental profits I must leave this to the jury entirely, ladies and gentlemen. I know we are talking about a tremendous sum of money. We are talking about $44 million...*
>
> Here is where we all stand on an equal plane and *the law gives you the right, if you think it is the appropriate thing in this case because of the fraud they committed, to take away the profits that Sears obtained, up to the amount that they acquired...*
>
> As far as the amount, ladies and gentlemen, that is your function and not mine. I can only explain what his rights are under the law. I'm not going to urge it either way because I feel that is something the jury should decide, use their own sense of fairness as to what is right...
>
> The jury would be properly entitled here, ladies and gentlemen, to award to Roberts *all of the so-called incremental profits or some fair portion of them...* (T3366, 3367, 3438, 3449; emphasis added.)

After evaluating the conflicting evidence on liability and monetary relief, the jury returned a verdict for petitioner in the amount of $1,000,000. Petitioner then filed a post-trial motion which disavowed any request for judgment NOV or a new trial. Instead, he asked for "complimentary relief in aid of the verdicts", specifically a $43,000,000 increase in the jury award and for respondent to return his patents. App. 65a-68a. The trial court denied this post-trial motion, holding that the $1,000,000 jury award was reasonable (SA. 149, 219-225).

Petitioner appealed to the Seventh Circuit, seeking once again an increase in the jury award, return of the patents and also an award of profits for the period following the jury verdict. In that first appeal, petitioner contended that his instruction on monetary recovery required an award of respondent's *profits, not damages.* Thus, his brief to the Seventh Circuit stated:

> *. . .the measure of recovery in this instruction was the profits and benefits Sears derived from the use of Roberts' invention.* (fn. 10, SA261, emphasis added.)
>
> * * * * * * *
>
> *To be sure, the trial court here used the term "damages" . . .*, but *as the court's own remarks during the instruction conference clearly show, the court was speaking of such "damages" as he would consider as a chancellor sitting in equity.* Thus, the court said that he could determine whether the contract should be rescinded, whether there should be an accounting, or whether to award damages, the measure of damage being "the benefit or net profit *the defendant had in order, as the Courts often say, to compel a disgorging from the Defendant of the benefits and profits he derives or it derived as a result of the wrong about which complaint is made." The word "damages," therefore, was used in the context of the amount of monetary restitution necessary to deprive Sears of enrichment unjustly obtained.* (SA249-250, emphasis added in part, footnote omitted.)

And, indeed, the Seventh Circuit *agreed* with petitioner that the jury had awarded respondent's profits. It also ruled that petitioner was bound by the jury verdict and that it could not be increased, as petitioner asserted, because to do so "would have been *completely unfair* to Sears".[3] Thus, the Seventh Circuit's opinion and mandate held:

> . . . Apparently dissatisfied with the size of the jury verdict, plaintiff sought in a post-trial motion to have the court reconsider the evidence and award relief based on essentially the same standard the jury used. *To have granted plaintiff's request would have been completely unfair to Sears.* It might have been better for the court to require the plaintiff to elect his remedy expressly prior to instructing the jury, but plaintiff did not object to the court's procedure, and therefore, must have been satisfied to let the jury determine the appropriate award. Having let the

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[3] As respondent argued to the Seventh Circuit and this Court, such an increase would have also been an unconstitutional additur.

> case go to the jury without getting the issue clarified, plaintiff should not be heard to complain about the outcome of that procedure. *Roberts* v. *Sears, Roebuck and Co.*, 573 F.2d 976, 985 (7th Cir. 1978), App. 1a, 16a. (Emphasis added.)

The Seventh Circuit also rejected petitioner's request for post-judgment profits. However, it remanded the cause to the trial court, directing it to determine whether the patents should be returned to petitioner, thereby permitting him to receive whatever benefits they might engender during the post-judgment period:

> With regard to an election between the profits awarded by the jury and *return of the patent* based on rescission, however, we see no basis for invoking the election of remedies doctrine. Based on the jury instruction, plaintiff will receive one million dollars as the measure of *past profits* earned by Sears up to the time of trial. That award, however, is not inconsistent with *return of the patent* so that plaintiff can receive the *future benefits of the patent* that Sears fraudulently acquired. There will be neither a double recovery nor a factual inconsistency between these remedies. Therefore, we conclude that going to the jury under a *past profits instruction* did not bar plaintiff from seeking rescission and *thereby possibly recovering his patent.* Whether rescission is appropriate, however, is an issue that should be decided in the first instance by the district court. 573 F.2d at 985-986, App. 16a-17a. (Emphasis added in part, citations omitted.)

Plaintiff did not petition the Seventh Circuit for rehearing following the first appeal, although he later argued that its first opinion and mandate were a "mistake" (SA. 926, 927, 935, 939). As his attorneys stated: *"we felt that for a variety of reasons, we weren't going to get anywhere with a motion for rehearing"* (SA837, emphasis added). Plaintiff did petition this Court for review, claiming that the Seventh Circuit had erred in

refusing him all of the relief which he desired. The petition was denied.[4]

Despite the law of the case, petitioner then argued on remand that the trial court could simply ignore the mandate of the Seventh Circuit and award him the very relief the courts had just refused him. Indeed, he even went so far as to call the Seventh Circuit's mandate a "mistake", a "misunderstanding" and "bizarre" (SA. 926, 927, 935, 939).

Evidently the tactic was persuasive, for petitioner convinced the trial court to ignore the Seventh Circuit's mandate. In addition to ordering respondent to reconvey the patents, the trial court's decree on remand required respondent to account for its profits *both* before and after the verdict and held that petitioner was entitled to this accounting in *addition* to the $1,000,000 jury award. *Roberts* v. *Sears, Roebuck and Co.*, 471 F.Supp. 372 (N.D. Ill. 1979), App. 18a.

Respondent appealed to the Seventh Circuit. On this second appeal, the Court of Appeals held that the trial court's decree improperly violated its mandate. *Roberts* v. *Sears, Roebuck and Co.*, 617 F.2d 460 (7th Cir. 1980), App. 36a. The Seventh Circuit therefore reversed the decree on remand "as being contrary to our earlier opinion and mandate" (617 F.2d at 465, App.44a.), noting that it apparently resulted from ". . . a basic misunderstanding upon remand of the mandate conveyed by the prior appeal". (617 F.2d at 640, App. 36a).

Thus enforcing the law of the case as set forth in its prior mandate, the Court of Appeals unanimously stated that petitioner would be the owner of the patents as of January 20, 1977, the date when judgment had been entered on the jury verdict, and that petitioner was entitled to nothing more for the

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[4] Respondent also filed a petition for certiorari at that time, and petitioner denominated his petition "conditional". However, this Court denied each petition in separate orders. 439 U.S. 860 (1978).

pre-judgment period. The court also ruled that petitioner was not entitled to an accounting of respondent's profits after the effective date of petitioner's ownership of the patents and that his relief for that period must be limited to any benefits which ownership of the patents would provide.

Although it is not mentioned anywhere in the pending petition, petitioner unsuccessfully sought rehearing of the Seventh Circuit's second opinion, and also a rehearing *in banc.* (App. 49a) That petition, like this one, simply recounted arguments previously rejected by that court and this one. Respondent submits that the time has come to put an end to petitioner's repeated attempts to improve on the $1,000,000 jury verdict on the sole ground that it did not meet his monetary expectations. Clearly, that is not a sufficient basis for certiorari and respondent respectfully urges that the petition be denied.

ARGUMENT

A.

Petitioner Has Not Been Deprived Of Any Right Guaranteed By The Seventh Amendment To The United States Constitution.

Petitioner's claim that the Seventh Circuit denied him the right to a jury trial is simply incredible. As respondent has pointed out, petitioner demanded and received a jury trial. *All* of his claims were submitted to the jury. On the basis of an instruction he tendered, he specifically argued to the jury that it should award him respondent's profits. The jury returned a verdict awarding petitioner $1,000,000, and the judgment on that verdict was fully satisfied by respondent. Petitioner, who demanded and received payment of the judgment, never sought to overturn the verdict or to have the case retried.

The real sum and substance of petitioner's purported Seventh Amendment claim, then, is not that he has been denied a jury trial but, rather, that he has been denied an award in an amount he deems acceptable and that he wants the award increased. But, respondent knows of no authority which extends the right to a trial by jury to include the right to monetary recovery in an amount specified by the plaintiff. Petitioner has clearly received that which the Seventh Amendment guarantees—a resolution by a jury of contested issues of fact. The Constitution requires no more.

Indeed, respondent submits that the Constitution forbids the relief which petitioner demands. Any judicial increase in the amount awarded by the jury would deny respondent its right to a jury trial. Such an additur, or substitution of a court's judgment for that of the jury, has been long and uniformly held unconstitutional.[5] *Dimick* v. *Schiedt,* 293 U.S. 474 (1935);

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[5] Respondent submits there can be no clearer proof that this is really what petitioner is seeking than his offer to give respondent a "credit" of the $1,000,000 already paid and received. Obviously, if petitioner would give respondent such a "credit", it must mean he has already recovered the profits he now seeks.

DePinto v. *Provident Security Life Insurance Co.*, 323 F.2d 826 (9th Cir. 1963), *cert. denied sub. nom. Gorsuch* v. *DePinto*, 376 U.S. 950 (1964) *United Airlines, Inc.* v. *Wiener*, 335 F.2d 379 (9th Cir. 1964); *United States* v. *93.970 Acres of Land*, 258 F.2d 17 (7th Cir. 1958), *rev'd on other grds.*, 360 U.S. 328 (1959); *Milprint, Inc.* v. *Donaldson Chocolate Co.*, 222 F.2d 898 (8th Cir. 1955); *Southern Farm Bureau Casualty Insurance Co.* v. *Palmer*, 263 F.2d 206 (5th Cir. 1959); *New Orleans & Northeastern R.R. Co.* v. *Hewett Oil Co.*, 341 F.2d 406 (5th Cir. 1965); *Silverman* v. *Travelers Insurance Co.*, 277 F.2d 257 (5th Cir. 1960). Clearly, then, the Constitution and the law interpreting it prohibit petitioner from receiving a judicial increase in his jury award.

Petitioner also persists in claiming that the jury was erroneously charged concerning monetary recovery. In the first place, as noted above, petitioner tendered the very instruction of which he now complains. Obviously, he has failed to meet the stringent requirements of F.R.C.P. 51[6] concerning objections to instructions. Moreover, petitioner expressly declined to ask the trial court for a new trial in his post-trial motion or to raise the issue in the first appeal. He has thus, in any event, failed to preserve any claim that the verdict was inadequate. *Panger* v. *Duluth, W. & P.R. Co.*, 490 F.2d 1112 (8th Cir. 1974); *Ryen* v. *Owens*, 446 F.2d 1333 (D.C. Cir. 1971); *Baker* v. *Dillon*, 389 F.2d 57 (5th Cir. 1968); 6A Moore, *Federal Practice*, ¶ 59.14 at p. 59-265 (1979).

But even if respondent had properly preserved a claim of error with respect to the instruction, any such claim would be groundless in substance. Although he now claims that the instruction directed the jury to return an award of "damages",

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[6] ". . .No party may assign as error the giving or the failure to give an instruction unless he objects thereto before the jury retires to consider the verdict, stating distinctly the matter to which he objects and the grounds of the objection. . . ."

not profits, petitioner argued to the jury that, under the instruction, it should give him respondent's profits. (T. 3366, 3367, 3438, 3449). Furthermore, when it appeared to suit his purpose, he argued strenuously on the first appeal to the Seventh Circuit that the instruction provided for and that the jury *had* awarded profits, not damages.[6] The Seventh Circuit agreed and so held (573 F.2d at 985-986, App. 16a-17a). What petitioner claims is that the Seventh Circuit was wrong because it agreed with him that he *had* received respondent's profits.

Obviously, petitioner's claim that he never received profits is a complete reversal of his prior position, a reversal he obviously feels is now to his advantage.[8] He first switched positions after the first appeal when he managed to convince the trial court on remand that he had been awarded "damages", not "profits", and that the Seventh Circuit's clear holding to the contrary was a "mistake" and was "bizarre".[9] The Seventh Circuit was clearly correct when it held on the second appeal that it was petitioner and the trial court who had made the "mistake" of failing to follow the mandate.

Petitioner comes before this Court attempting to rewrite the facts and law of this case in order to suit his perceived needs

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[7] During the first appeal, petitioner also argued that the word "damages," as used in the instruction, was merely a label that did not alter his theory of profit recovery (SA248). Only now, according to him, does this label *ipso facto* become a *sine qua non* to his theory of recovery. Indeed, the predecessors to the instruction in question, which petitioner now claims were proper profit instructions improperly rejected by the trial court, also used the word. (SA 61, 99)

[8] Respondent unsuccessfully argued to the Seventh Circuit on the first appeal that this was a damage instruction. However, respondent recognizes that the Seventh Circuit's holding to the contrary is the law of this case and binding on the parties.

[9] As stated above, petitioner gave the Seventh Circuit no opportunity to correct its "mistake," disdaining a petition for rehearing because "... *we felt that for a variety of reasons, we weren't going to get anywhere...*" (SA 837, emphasis supplied).

of the moment. Clearly, there is no merit to his contention that he has been denied a jury trial. Rather, he has received all that the Constitution allows. The only threat to Constitutional rights which could exist with respect to this case is petitioner's attempt to secure an illegal additur to the jury verdict. The petition should be denied.

B.

The Seventh Circuit Correctly Held That Petitioner's Rights to Post-Judgment Recovery Are Only Those Which Flow From The Patents

In another, but equally futile, attempt to conjure a ground for this Court's review, petitioner argues that the Seventh Circuit "unfairly" denied him an accounting for the period after January 20, 1977, the date when the trial court entered judgment on the jury verdict and the date when he is deemed the owner of the patents.[10] Here too, however, petitioner's argument must fall because the Seventh Circuit was wholly correct in fact and law.

What the Seventh Circuit did was to put petitioner in the same position he would have been in had the trial court granted his request for return of the patents when it entered judgment. Had the trial court done so, petitioner would have had to sue infringers in order to obtain any further recovery, *exactly* as he does now. How can petitioner seriously claim that he has been treated "unfairly" by the Court of Appeals?

In fact, petitioner's arguments concerning the "adequacy" of this post-judgment remedy are not with the Seventh Circuit, but with Congress. Thus, he argues that the infringement

[10] As noted above, the Seventh Circuit unanimously held that petitioner is to be the owner of the patents as of that date and a majority held that he must rely on these patents for any monetary recovery thereafter.

remedy is "inadequate" because he can only recover his damages, not respondent's profits. However, as he himself points out at page 14 of his petition, it was the decision of Congress to provide this remedy to patent holders like petitioner. For the Court of Appeals to have unilaterally altered this remedy to suit petitioner, as he apparently requests, would, to say the least, have rendered the Patent laws a nullity.

Far from being "inadequate", as petitioner asserts, the infringement action has been expressly created by Congress, and is, therefore, necessarily a sufficient remedy for patent owners such as petitioner. It is axiomatic that the availability of an adequate remedy at law bars the equitable relief sought by petitioner. *See, Beacon Theatres* v. *Westover,* 359 U.S. 500, 506-07 (1959); *Rondeau* v. *Mosinee Paper Corp.,* 422 U.S. 49, 57 (1975); *Adamszewski* v. *Local Lodge 1487,* 496 F.2d 777, 786 (7th Cir. 1974), *cert. denied,* 419 U.S. 997 (1974); *Fox Valley Harvestore, Inc.* v. *A. O. Smith Harvestore Prod., Inc.,* 545 F.2d 1096 (7th Cir. 1976). Clearly, the very existence and adequacy of the remedy for infringement, as established by Congress, forecloses petitioner's request for equitable relief for the period after the effective date of the return of his patents.

Perhaps one reason why petitioner is reluctant to rely on the patents for further recovery is because there would finally be the hearing on the question of validity which respondent has sought for over ten years. Evidently, petitioner prefers to continue to avoid the question of validity, despite his repeated assertions that the patents are valid. However, in this instance, too, it is the Patent laws, not any supposed error by the Seventh Circuit, which give respondent the right to challenge validity upon the return of the patents to petitioner. Those laws make it abundantly clear that petitioner may not recover for the use of his "invention" after he owns the patents unless the patents are valid. *Lear, Inc.* v. *Adkins,* 395 U.S. 653 (1969).

It is obvious that petitioner has not been treated unfairly in any way. The courts below have given him every right to which

he is entitled in fact and under the law. For these reasons as well, the petition should be denied.

C.

The Seventh Circuit's Holding Does Not Conflict With Any Other Legal Precedent Or With The Election Of Remedies Doctrine

In a last desperate attempt to avoid the necessary conclusion that he has received all to which he is entitled, petitioner contrives an argument that the Seventh Circuit's opinion on the second appeal is inconsistent with its prior opinion and with opinions of this Court and other courts of appeals. But, like his other arguments, this contention ignores the facts and is devoid of legal merit.

In the first place, the two opinions of the Seventh Circuit are not inconsistent. As respondent has shown, that court, on the first appeal, held that petitioner was not entitled to an increase in the amount of profits which he had been awarded by the jury or to any post-judgment profits. The first opinion also held that petitioner was not barred by the election of remedies doctrine from obtaining the return of the patents, and it remanded the case to the trial court solely for a determination whether petitioner could regain the patents so that he might have their benefits in the post-judgment period.

However, as discussed above, the trial court disregarded the Seventh Circuit's mandate and ordered an accounting of respondent's pre- and post-judgment profits. The *only* issue involved in the second appeal was whether the trial court had followed the mandate or law of the case. The Seventh Circuit correctly held it had not.

Petitioner asserts that, because the Seventh Circuit's second opinion occasionally used the term "damages" to describe the $1,000,000 award, it improperly applied a so-called "anti-

quated" election of remedies doctrine to hold that he elected "damages". Thus, he asserts, this Court should apply the so-called "modern" doctrine and award him profits. But this argument is patently without merit. The Seventh Circuit neither held that petitioner elected a "damage" remedy, nor did it apply an "antiquated" doctrine.

In the first place, if the Seventh Circuit had really held that petitioner "elected" a damage remedy as he now claims, it would not and could not have awarded him the *equitable* relief of return of the patents. *Paoli* v. *Zipout, Inc.*, 21 Ill.App.2d 53, 157 N.E.2d 79 (1959).

Moreover, even under petitioner's own description of the "modern" and allegedly proper election of remedies doctrine (*Alton* v. *Hawes,* 63 Ill.App.3d 659, 380 N.E.2d 7 (1978)), "damages" and "profits" for the same period of time would be a forbidden double recovery.[11] As a leading commentator has noted, under the modern doctrine:

> "...[*a plaintiff*] *may not, obviously enough, recover full damages for fraud and also recover full restitution,* since this would in effect be a double recovery, or at least more than one full recovery." D. Dobbs, *Handbook on the Law of Remedies,* § 9.4, at p. 620 (1973) (Emphasis added).

And even if it were possible to credit petitioner's current claim that the jury awarded damages, he insisted on and

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[11] *Alton* v. *Hawes,* 63 Ill. App.3d 659, 380 N.E.2d 7 (1978), cited by petitioner at page 24, is not applicable. In *Alton,* the court held that a plaintiff who had previously obtained a money judgment did not elect that remedy under the "modern" election of remedies doctrine where "...plaintiff's judgment for damages...has not been *collectible* and, in fact, *appears uncollectible*..." 63 Ill.App. 3d at 663. Unlike the case at bar, those facts would avoid any question of double recovery. Petitioner's offer to credit respondent with the $1,000,000 recovery would hardly avoid a forbidden double recovery. There would still be an unconstitutional additur in violation of respondent's Seventh Amendment right to a trial by jury.

received payment of the $1,000,000 verdict. Under these circumstances:

> "...there may be a very good reason to preclude the plaintiff from further claims *once he has proceeded to a final judgment or a satisfaction of it,* even if there is not always such a good reason to preclude him when he has only initiated a law suit.
>
> Where the plaintiff actually recovers the remedy he seeks and enforces it, *as where he recovers a judgment for damages and actually collects on it,* there is no problem in holding that *the plaintiff is barred from any further remedy."*

D. Dobbs, *Handbook on the Law of Remedies,* § 1.5, at p. 19 (1973) (Emphasis added).

Clearly, then, it cannot be said that petitioner has been restricted to "legal" relief. The only "election" the Seventh Circuit found he made was the choice to submit the measure of monetary relief to the jury. He received that monetary relief from the jury, although he obviously wanted more. He also received the return of his patents, as he requested, and the opportunity to pursue his rights thereunder, should he so desire. As respondent has shown, a judicial increase in the award would itself be unconstitutional and, as the Seventh Circuit stated, "*completely unfair* to Sears." Under any interpretation of the law, plaintiff has received all to which he is entitled.

Finally, there is no merit to petitioner's contention that the Seventh Circuit's second opinion conflicts with decisions of this and other courts dealing with the right to a jury trial on "equitable" claims. At the risk of repetition, but in the hope of clarity, petitioner demanded and received a jury trial on all of his monetary claims, legal and equitable. These claims were submitted to the jury, which returned a $1,000,000 verdict in his favor. Evidently, the amount did not meet his desires and expectations. But the definition of a jury trial guaranteed by the

Constitution is not one which has a guaranteed result, compelling a court to add to the jury's verdict.

Surely, none of the cases cited by petitioner condone such an unconstitutional additur, nor do those cases support his claim that the holding of the Seventh Circuit is in conflict with other decisions. In fact, in each of the decisions of this Court which petitioner cites, *Ross* v. *Bernhard,* 396 U.S. 531 (1970), *Simler* v. *Conner,* 372 U.S. 221 (1963), *Dairy Queen, Inc.* v. *Wood,* 369 U.S. 469 (1962) and *Beacon Theaters* v. *Westover,* 359 U.S. 500 (1959), the plaintiff's jury demand had been improperly stricken, and this Court held that plaintiff was entitled to submit factual disputes to a jury. No such denial of a right to a jury trial occurred here. Rather, petitioner's jury demand was honored, and all contested issues were determined by the jury, as he requested.

No more apposite are the cases from other Circuits cited by petitioner, *Kennedy* v. *Lasko Co., Inc.,* 414 F.2d 1249 (3rd Cir. 1969), *Bruce* v. *Bohanon,* 436 F.2d 733 (10th Cir. 1971) and *Nunez* v. *The Superior Oil Co.,* 572 F.2d 1119 (5th Cir. 1978). In each of those cases as well, plaintiff had actually been denied a trial by jury, not just a verdict in the amount he may have desired. None of those cases involved a plaintiff who asked for and received a jury trial, had his claim for monetary relief submitted to the jury pursuant to his own instruction, received a monetary award and obtained rescission of an agreement and return of the *res.* There simply is no "conflict" at all between the Seventh Circuit and any other law.

CONCLUSION

Petitioner has not been denied a trial by jury or any other right to which he was entitled. Rather, he has received a full and fair hearing of his claims, including appellate review by two panels and the full bench of the Seventh Circuit. The only threat to Constitutional rights which might exist in this case would be in the event of an additur which would deny Respondent's Seventh amendment rights. Clearly no ground exists for review of the Seventh Circuit's decision. For each and all of the foregoing reasons, Respondent, Sears, Roebuck and Co., respectfully prays that the Petition for Certiorari be denied.

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1980

PETER M. ROBERTS,

Petitioner,

vs.

SEARS, ROEBUCK AND CO., a corporation,

Respondent.

PETITIONER'S REPLY TO RESPONSE TO PETITION FOR A WRIT OF CERTIORARI

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The Response to the Petition does not, in essence, contest the validity of the legal position stated by petitioner. Instead, it seeks to suggest, by distortion of the record, that the errors committed by the court of appeals were invited errors. The fact is that petitioner unswervingly demanded the right to jury trial on all of his claims and never abandoned his right to recapture the profits respondent secured by defrauding petitioner of his rights in his invention.

I.

THE FACTS: THERE WAS NO INVITED ERROR. PETITIONER HAS PERSISTENTLY AND CONSISTENTLY ASSERTED THE RIGHTS HE SEEKS TO VINDICATE HERE.

Each of petitioner's three claims (first, fraud; second, breach of a confidential relationship; and third, negligent misrepresentation) rested on a theory of rescission, or disaffirmance of the agreement Sears obtained by its fraud. Return of the patents was sought under each claim. Only the amount of monetary recovery would vary: the unjust enrichment of the respondent under the first and second claims; the damage to the petitioner under the third claim.

Sears states that the petitioner "has already received a jury award of respondent's profits." The instruction in this case told the jury that in determining the plaintiff's damages they *may* take into account the defendant's profits. As the patent cases show, an instruction which tells the jury that they *may* take into account the defendant's profits is not "essentially the same standard" (App. 16a) as an instruction which tells the jury that the plaintiff *has a right* to recover the defendant's profits.

The trial judge made it plain that he was giving the instruction which he dictated because it was *not* a past profit instruction. Sears recognized that the instruction in question required any jury award to be for money damages exclusively. (Response p. 10, fn. 8.) Although the court of appeals characterized the instruction in question in its first opinion as one which authorized the jury to award the defendant's wrongful profits to the plaintiff, that is not what the court of appeals held in its second opinion. In the second opinion it reverted to the position of the trial judge and held that "By submitting his damage claim to the jury, the plaintiff elected that remedy," and therefore Sears was entitled

to keep the profits it had acquired through its fraud. (App. 43a)

In the same vein Sears states (Response pp. 3, 4) that on the first appeal to the court of appeals petitioner contended that the instruction on monetary recovery "required an award of respondent's *profits, not damages.*" Excerpts from petitioner's brief, taken out of context, are presented to support this statement, which is contrary to the fact. The petitioner's brief on the first appeal urged throughout that he was entitled to rescission. The basic proposition in the petitioner's brief read as follows:

> "Under his prayer for rescission, plaintiff is entitled to the consistent remedy of return of his property which the defendant obtained by fraud and breach of a confidential relationship and of monetary restitution for the value of the use Sears made of that property which it wrongfully obtained." (Brief at 16)

And the following proposition was discussed at pp. 33-40 of that brief:

> "The pleadings consistently and unequivocally sought rescission of the agreement, restoration of plaintiff's patents, and monetary restitution for the value of their use. The evidence and the verdict established the right to this relief, and this relief has not yet been granted." (*Id.* at 33)

Sears repeatedly says that the instruction which told the jury what it might consider in determining the amount of its verdict if it found Sears guilty of fraud "was tendered" by the petitioner. It must be pointed out emphatically that the petitioner *did not request* that instruction. The judge had twice refused to instruct the jury that the plaintiff was entitled to an accounting for the profits Sears had acquired by its fraud. (App. 54a, 62a) The judge had also firmly announced that he would not consider a request for equitable relief by way

of accounting for Sears' profits following a determination that the petitioner had been defrauded by Sears. (App. 53a)

The instruction given was dictated by the judge, (App. 62a), and was retyped and returned by the petitioner's attorney, who, in delivering it to the judge, stated: "I just want to say for the record, it was our understanding the Court had earlier refused an instruction asking, telling the jury they had to award profits." (App. 63a) And again: "I will just say for the record, your Honor, this is being submitted because of the Court's ruling that the jury should not be instructed that they had to bring in the profits." (App. 63a) Because of Sears' arguments, the petitioner was without any instruction other than that dictated by the judge.

There was no invited error. The requirements of Rule 51 were delineated long ago in *Irvin Jacobs & Co. v. Fidelity & Deposit Co. of Maryland*, 202 F.2d 794, 800-801 (7th Cir. 1953). The test for compliance is whether the trial court "fully understands the plaintiff's position." And after having made his position clear, "the plaintiff was free thereafter to win a verdict if he could within the narrower borders of the case that the Judge had laid down for him." 202 F.2d at 801.

Finally, Sears argues (Response p. 9), that petitioner is now claiming that the jury verdict was "inadequate." Petitioner has not contended that the jury verdict was inadequate as a determination of his damages. Rather, he asserts that the issue of Sears' profits was not submitted to the jury for determination and has not yet been determined by any trier of fact. The isssue of Sears' profits had been withdrawn from the jury upon Sears' objection. (App. 55a) At the very least it was the trial court's duty, once Sears was found guilty of fraud, to determine and award those profits.

II.

THE LAW: PETITIONER HAS BEEN DENIED CONSTITUTIONAL RIGHTS CLEARLY ESTABLISHED BY THIS COURT AND OTHER FEDERAL COURTS.

The respondent would have the Court conclude that no more is involved in this case than an erroneous instruction from which no appeal was taken. But what is at stake here is the right to a jury trial in an action to enforce the basic policy of the law against unjust enrichment through fraud. Under the decision of the Court of Appeals for the Seventh Circuit in this case, the price of a jury trial is the forfeiture of the right to enforce that basic policy. The court of appeals announced: "Restitution for the disgorgement of unjust enrichment is an equitable remedy with no right to a trial by jury." (App. 43a) The court then held: "By submitting his damage claim to the jury, the plaintiff elected that remedy." (*Id.*)

Sears now argues that *Dairy Queen, Inc. v. Wood*, 369 U.S. 469 (1962), and the related decisions of this Court and the Courts of Appeals are irrelevant because the petitioner in this case had a jury trial. Of course he did—*but the penalty now imposed by the court of appeals* for that jury trial is the forfeiture of his right to an accounting for the profits that Sears obtained by its fraud. The Seventh Amendment and the cases interpreting it do not countenance the imposition of such an unconstitutional condition upon the right to a jury trial.

Sears seeks to avoid liability by stressing the fact that petitioner accepted $1,000,000 after the first appeal. As matters stood at that time, the jury had found for the petitioner with respect to negligent misrepresentation and that judgment had been affirmed. Petitioner then believed, as did the trial judge, that restitution of Sears' unjust enrichment would follow under the court's remand "for a determination of whether rescission is appropriate under the facts of this case." (App. 17a)

Under the trial court's rescission decree, nothing more than the benefits Sears derived by its fraud would be allowed to the petitioner. The magnitude of Sears' potential liability to disgorge its unjust enrichment has always been within Sears' exclusive control. It was Sears' conscious decision, despite the charges of fraud later proved by Sears' own records and employees, to withhold plaintiff's patent rights until the value of those rights has so greatly diminished that their return is a hollow gesture. During the many years this case has been pending, Sears has been actively exploiting the patent and the invention in the marketplace. Sears argument that recovery of its profits would render the patent laws a nullity was properly rejected by the court of appeals on the first appeal. The patent law governs the rights between the owner and the infringer. During the period in question Sears was the owner and exploiter of the patent and its liability was not based on infringement but on unjust enrichment through fraud.

The wrongful profits that Sears seeks to retain may be large, although Sears vigorously denies it. But the impact of this case upon the nation's business ethics and morality far exceeds its significance to the parties. Disgorgement of the wrongdoer's profits has a punitive sound. In point of fact however, when the wrongdoer's profits have been taken from him, he has had an entirely free gamble. He has not been penalized at all. If his fraud goes undiscovered, he has profited greatly; if it is discovered, he is simply put back where he would have been if he had not embarked upon his fraudulent course.

If only a damage remedy is permitted for fraud, the law will be insuring that fraud will be more profitable than honest dealing. A fraudfeasor will use the invention or other property free, paying at most a reasonable royalty, and that only if and when his fraud is estab-

lished in a court of law. It is for these reasons that statutes and decisions have sanctioned the recovery of both the plaintiff's damages and the defendant's profits. (See, *F.W. Woolworth Co. v. Contemporary Arts, Inc.*, 344 U.S. 228, 229 (1952); *Telex Corp. v. International Business Machines Corp.*, 510 F.2d 894, 932 (10th Cir. 1975); cf. *Clark v. Bunker*, 453 F.2d 1006, 1011 (9th Cir. 1972)). That question is not presented in this case, however, because the District Court has determined and the petitioner has agreed that the judgment recovered is to be credited upon the ultimate accounting.

On the first appeal the court stated that plaintiff had been awarded past profits, hence it denied his claim to recover them. On the second appeal the court held that the plaintiff had not recovered past profits, but was no longer entitled to do so because he had elected a damage remedy. The decisions are inconsistent, and combined they unconstitutionally deprive the plaintiff of his unjust enrichment claim.

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